Ontario

2006 Ontario

Economic Outlook and Fiscal Review

The Honourable Greg Sorbara
Minister of Finance

Background Papers

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FOREWORD

When the McGuinty government came to office in 2003, it inherited a $5.5 billion fiscal deficit, as well as significant deficits in health care, education and infrastructure.

Over the past three years, through its prudent and disciplined fiscal approach, the government has made progress in restoring Ontario's financial health, while making historic, long-term investments in health, education, infrastructure and a strong economy.

Ontario's economy is fundamentally strong and has shown great resilience in the face of adverse external economic forces that have been building in recent years. Consumer spending and business investment have experienced solid growth in the first half of 2006, and the unemployment rate has fallen to an average of 6.4 per cent – the lowest in five years. Since October 2003, Ontario has created 254,100 net new jobs.

However, Ontario's economy continues to be affected by external risks and pressures, notably high oil prices, a strong Canadian dollar and a weakening of the U.S. economy. These factors have caused Ontario's economy to grow more slowly than projected in the March 2006 Budget.

The government's fiscal prudence and investments to strengthen the economy since 2003 have prepared the province to weather this period of slower, short-term economic growth. Over the medium term, Ontario's growth is expected to strengthen significantly.

While Ontario's economic fundamentals remain strong, the government recognizes the need to introduce measures to boost jobs and growth in the short term. Building on current investments, the government is therefore committing additional resources to training and job services, infrastructure spending, and measures to promote interprovincial trade and Ontario tourism.

Slower economic growth has also had an impact on Ontario's fiscal outlook. While the 2006–07 deficit target remains unchanged from the $1.9 billion deficit projection outlined in the First Quarter Ontario Finances (a deficit of $0.9 billion if the reserve is not required), the medium-term fiscal outlook is now projecting deficits of $2.2 billion in 2007–08 (a deficit of $0.7 billion if the reserve is not required) and $1.0 billion in 2008–09 (a surplus of $0.5 billion if the reserve is not required).

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances, a key part of which includes keeping program spending under control.

Fair and equitable funding arrangements with the federal government are also critical to Ontario's ability to strengthen its economic advantage through investments in health, postsecondary education, infrastructure and training. At present, Ontarians receive less federal support in these areas than Canadians in other provinces and territories. The Ontario Government will therefore continue to press the federal government to honour the funding commitments it has already made and to take additional measures to treat Ontarians fairly.

Ontario's economic foundation remains strong. The government's prudent and disciplined approach, in addition to ongoing strategic investments in a well-educated and highly skilled population, a high-quality health care system, reliable, modern infrastructure and key economic sectors, will continue to strengthen the economy and ensure that the province is well positioned to manage both the challenges and opportunities ahead.

ANNEX I

Ontario's Economic and Revenue Outlook

SECTION I: STRENGTHENING ONTARIO'S ECONOMIC ADVANTAGE

Ontario's economy is fundamentally strong and has been resilient in the face of adverse external economic forces. In the first half of 2006, economic growth was supported by domestic demand, with consumer spending and business investment growing solidly. Ontario has created 254,100 net new jobs since October 2003, and the unemployment rate has fallen to an average of 6.4 per cent so far this year — the lowest in five years.

However, record-high oil prices, the stronger Canadian dollar and a weaker outlook for economic growth in the United States — Ontario's largest trading partner — have led to slower projected economic growth than anticipated in the March 2006 Budget. Still, growth is expected to strengthen over the medium term and private-sector forecasters expect Ontario to grow faster than most G7 economies over the 2006 to 2009 period.

Over the past three years, the government has managed the Province's finances prudently, while making key investments in health care, education and infrastructure. This economic strategy has prepared the Province well to weather this temporary period of slower economic growth.

ONTARIO'S ECONOMIC PLAN — BUILDING PROSPERITY

Today's increased globalization means that Ontario faces a more challenging and competitive environment than ever before. Ontario's future prosperity depends largely on its ability to continue to adapt, innovate and strengthen its competitive advantage.

Ontario's strength is due, in large part, to the diversity of its economy and of its people. The government's economic plan is to strengthen the province's economic advantage and build opportunity through investments in infrastructure, electricity, education, research and innovation, and key economic sectors, while maintaining a competitive tax and business environment.

Sound fiscal management is a vital part of the government's plan for sustainable prosperity. A strong fiscal position increases private-sector confidence, which in turn stimulates private-sector investment in Ontario, leading to stronger economic growth.

The government's economic plan focuses on several important components:

- renewing Ontario's infrastructure
- investing in reliable electricity supply
- supporting research and innovation
- building a highly educated and skilled workforce
- ensuring a competitive economic environment
- strengthening key sectors and regions.

Renewing Ontario's Infrastructure

A crucial component of Ontario's economic plan is renewing the province's infrastructure. The 2005 Budget announced that, over the following five years, the government and its partners will invest more than $30 billion in public infrastructure under the ReNew Ontario plan. As well, in the 2006 Budget, the government announced Move Ontario, an additional $1.2 billion one-time investment in public transit, municipal roads and bridges.

The government's infrastructure projects, particularly in transit, health and education, will improve the productivity and long-term growth prospects of Ontario's economy, and during the construction period they will support close to half a million jobs over the next several years.

Infrastructure Investment for Economic Prosperity

Public infrastructure is vital to Ontario job creation and economic prosperity, quality of life and delivery of public services. The government is investing to renew and expand Ontario's infrastructure to provide a solid foundation for growth with:

- a five-year ReNew Ontario plan to invest more than $30 billion in infrastructure
- a $1.2 billion investment in transportation infrastructure, including $838 million in new funding for public transit in the Greater Toronto Area (GTA) and $400 million in new funding for Ontario's roads and bridges in municipalities primarily outside the GTA, with special emphasis on rural and northern communities
- more than 100 major hospital improvement and modernization projects across Ontario; 36 long-term care (LTC) expansion and redevelopment projects completed; and, as announced in June 2006, more than $1 billion in additional support for hospital construction
- more than 3,000 urgent education repair and construction projects; creating 14,000 new graduate school spaces across the province by 2009–10; and increasing first-year enrolment at Ontario medical schools by 23 per cent by opening new campuses and creating new spaces
- a new five-year, $3.4 billion Southern Ontario Highways Program to support key transportation and trade corridors in southern Ontario, adding 130 kilometres of highway and 64 bridges, and repairing 1,600 kilometres of highway and 200 bridges
- a $1.8 billion Northern Ontario Highways Strategy, expanding the northern highway system by more than 60 kilometres and over 50 bridges, and repairing 2,000 kilometres of highway and 200 bridges over five years
- more than $1.6 billion of provincial gas tax revenues in municipal transit systems by 2010 to strengthen public transit and increase ridership in Ontario
- up to $900 million, together with the federal government and municipal partners, through the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF) to upgrade critical local infrastructure such as roads and bridges and water and wastewater systems
- the federal government and other partners, more than $800 million for Canada–U.S. border infrastructure improvements in Windsor, Niagara, Sarnia and Sault Ste. Marie to enhance the flow of trade with Ontario's largest trading partner
- fast-tracking of a number of infrastructure projects, generating immediate economic activity and boosting job creation.

Reliable Electricity Supply and Price Stability

Reliable electricity supply and price stability, which keep Ontario's economy competitive and benefit all consumers, are central to the government's plan. The government has taken action to establish a 20-year plan for sustainable, reliable clean energy in the future.

Investing in Ontario's Electricity Infrastructure and Improving Price Stability

Investments in Ontario's electricity infrastructure are essential to supporting and enhancing Ontario's economic competitiveness and promoting a more prosperous Ontario. Predictable and stable pricing benefits all consumers.

- Since October 2003, more than 3,000 megawatts of power have come online — enough power for about 1.8 million homes.
- About 8,500 megawatts of electricity supply projects are underway for new and refurbished generation, and conservation and demand management, adding enough power for about 3.7 million homes over the next five years.
- About $11 billion in investments are being made in the projects for new and refurbished generation. At the peak of construction activity, over 5,000 workers will be directly employed at these projects, plus many thousands more working in factories to supply new materials and equipment to them.
- The government has a target to double by 2025 the province's renewable energy sources, including wind, solar and water, to 15,700 megawatts, making Ontario a leader in clean energy.
- The government has initiated up to $2 billion of spending on conservation programs over the next several years. To promote conservation, the government is also moving forward on the installation of 800,000 smart meters in Ontario homes and businesses by 2007, and all homes and businesses by 2010.
- To promote reliable delivery of electricity, Hydro One is planning to invest $755 million in 2006, and more than $1.2 billion in each of 2007 and 2008, to sustain, expand and reinforce its transmission and distribution systems.
- The government is also promoting consolidation efficiencies in the electricity distribution sector through a two-year exemption from the electricity transfer tax for sales of electricity assets between publicly owned utilities, as announced on October 17, 2006. Previous transfer tax exemptions have led to efficiency savings of 10 to 30 per cent in operations, maintenance and administration costs.
- Effective April 1, 2005, the government set an average price of 4.5 cents per kilowatt hour (¢/kWh) on the output of Ontario Power Generation's (OPG) regulated assets, which produce about 40 per cent of Ontario's electricity generation.
- The government extended and adjusted the transitional revenue limit on most of the output from the rest of OPG's assets:
    - 4.6¢/kWh from May 1, 2006 to April 30, 2007
    - 4.7¢/kWh from May 1, 2007 to April 30, 2008
    - 4.8¢/kWh from May 1, 2008 to April 30, 2009.
- The government has also established a regulated price plan (RPP) for residential and small business consumers, with prices set periodically by the Ontario Energy Board (OEB). On October 11, 2006, the OEB announced that RPP prices would be reduced by 0.3¢/kWh, effective November 1, 2006.

Research and Innovation

Ontario's highly skilled and diverse workforce, competitive taxes, research and development incentives, and excellent infrastructure all contribute to the province's positive environment for innovation. In fact, half of Canada's industrial research and development is carried out in this province.

Investing in Research and Innovation

Together with researchers, universities and entrepreneurs, the government is expanding research, commercialization and outreach programs. The government's $1.7 billion investment over the five years to 2009–10 includes:

- $550 million for the Ontario Research Fund to support research excellence and infrastructure
- $160 million for the Ideas to Market Strategy to move discoveries rapidly from lab to marketplace
- $286 million for the Ontario Cancer Research Network and Ontario Institute for Cancer Research
- $100 million for the Perimeter Institute for Theoretical Physics and Institute for Quantum Computing in Waterloo to help position Ontario for the next revolution in high-speed computing
- $42 million for new awards to recognize and support the achievements of Ontario's researchers and innovators
- $26 million for the development and expansion of commercialization centres in Hamilton and Toronto
- nearly $4 million for youth science and technology outreach.

A Highly Educated and Skilled Workforce

One of Ontario's most important competitive advantages is its highly skilled and well-educated workforce. The Province is investing in the skills and knowledge of its people through Reaching Higher, its historic $6.2 billion investment in postsecondary education, which will provide higher quality and more accountability and opportunity, including initiatives for those now underrepresented in higher education. As well, the creation of a $2.1 billion Jobs and Skills Renewal Strategy supports thousands of new apprenticeships and programs to fully utilize the skills of Ontarians. The Province continues to call on the federal government to honour the Labour Market Partnership Agreement, which funds a portion of this strategy.

Investing in People

A key driver of a strong economy and job opportunity is a well-educated and highly skilled workforce. The Ontario Government has invested to strengthen the competitive advantage found in its people by:

Creating prosperity through postsecondary education:

- increasing full-time enrolment by 86,000 students
- doubling student assistance to make education affordable, benefiting 145,000 students this year
- limiting student debt to $7,000 per completed year of study; bringing back upfront grants; and limiting average tuition increases
- committing $55 million by 2009–10 to create more opportunities for Aboriginal peoples, persons with disabilities, francophones and students first in their families to pursue higher education
- increasing operating funding by 35 per cent by 2009–10 to hire new faculty, improve student services and enhance libraries, laboratories and equipment.

Modernizing the training and employment system:

- $1.2 billion in new funding annually by 2009–10 provided through three labour market and immigration agreements with the federal government
- building on these new resources, a $2.1 billion Jobs and Skills Renewal Strategy to help students pursue skilled trades, create training incentives for employers and help workers upgrade their skills
- over $100 million annually for apprenticeship; on track to meet the annual goal of 26,000 new registered apprentices by 2007–08
- an Apprenticeship Training Tax Credit (ATTC) to encourage businesses to create apprenticeship opportunities
- $15 million by 2007–08 to expand Academic Upgrading for early school leavers
- $52 million this year to help 56,000 young people get summer jobs
- up to $45 million in a Youth Challenge Fund and a $28 million Youth Opportunities Strategy to help at-risk youth succeed
- providing new funding for services and programs to help job-threatened or laid-off workers find new jobs.

Creating better opportunity for new Canadians:

- introduced on June 8, 2006, Bill 124, the Fair Access to Regulated Professions Act, to ensure internationally trained individuals are given fair and transparent access to Ontario's regulated professions
- over $130 million in 2006–07 to help newcomers settle, improve their language skills and find employment
- $34 million for 60 bridge-training programs, helping more than 6,000 newcomers
- positions for internationally trained medical graduates doubled to 200.

A Competitive Economic Environment

Ontario's economic plan focuses on ensuring taxes are competitive. Strong capital investment by the business sector is a major source of long-term productivity growth, which leads to higher living standards.

Creating a More Competitive Tax Climate for Business

The government has announced several measures to further support job creation and enhance Ontario's competitiveness including:

- A five per cent capital tax rate cut beginning in 2007 and a legislated plan to eliminate Ontario capital tax entirely by 2012.
- A proposed enhanced dividend tax credit that would provide $40 million this year and up to $120 million on full implementation to encourage investment in Ontario corporations and to provide better integration of the corporate and personal income tax systems.
- A single corporate tax administration that would allow businesses to spend less time on paperwork, and more time creating jobs and fostering a strong, prosperous economy. The benefits, when fully implemented, will include:
  - up to $100 million annually in compliance cost savings from one tax form, one tax administration and one set of tax rules
  - a $90 million annual income tax cut for Ontario businesses, due to corporate income tax harmonization, that will primarily benefit the manufacturing, wholesale and retail trade, and film production sectors
  - continued Ontario support for research and development (R&D) and innovation with a 4.5 per cent non-refundable tax credit to replace the current R&D tax deduction
  - continued Ontario income tax support for the mining sector.

(See Annex IV, *Corporate Tax Harmonization,* for details.)

As part of its plan, Ontario is modernizing its business and financial regulation to maintain an attractive business climate, stay ahead of global markets and build on Ontario's economic advantage. A competitive regulatory framework protects consumers and investors and is also key to a positive business climate and a growing economy.

Providing excellent, publicly funded health care is another important part of Ontario's economic advantage because it lowers costs to business and supports the productivity of Ontario's workforce.

Modern Business and Financial Services Regulation

To help support a growth-oriented business environment, the Ontario Government:

- is working with its partners to offer a wide range of government information relevant to business through ServiceOntario. It has made it easier to access important information, government forms and services, including searching, registering and changing information. There are also links to industry-specific information and other support services for Ontario businesses.
- is modernizing its corporate and commercial law framework to help businesses compete in the global economy.
- is updating Ontario's laws on the transfer of securities that are held in electronic form. The Canadian Capital Markets Association reports that the benefit of improved trade processing, which it estimated at $140 million per year across Canada, could be at risk without these changes.
- is streamlining securities regulation by working to expand harmonized approaches across jurisdictions and is engaging other jurisdictions to move to a common securities regulator.
- is protecting investors through civil liability for secondary-market disclosure, more robust corporate and investment fund governance and enhanced financial reporting.
- is proposing amendments to the *Credit Union and Caisses Populaires Act, 1994*, and has introduced a bill to replace the *Mortgage Brokers Act*.
- has introduced legislation to allow Ontario's farm mutual insurance companies, and other provincially incorporated insurers, to operate under investment and corporate governance rules similar to those at the federal level.
- is harmonizing the Province's air emissions reporting standards with federal regulations to save time and money for businesses.

Key Sectors and Regions

The Ontario economy is continually adapting to both transitory and longer-lasting changes in the external environment. In addition, various industries and regions face unique issues.

Ontario's regions can achieve the best possible outcomes and the highest standard of living by being adaptable and by building on the strength of Ontario's highly educated and skilled workforce. Government, working with industry and community groups, can help ensure that the best possible long-term outcomes are achieved.

Strong, Sustainable Communities

A strong economy and strong communities reinforce each other in generating wealth and opportunities. Together, they are key to a sustainable and responsive economy that is innovative and competitive and supports a high quality of life.

The government has demonstrated its commitment to building strong, sustainable communities through such initiatives as the *Places to Grow Act*, the Green Belt Plan and *Planning Act* reform. These advances in planning complement substantial investments in infrastructure and Ontario's ongoing efforts to enhance effective partnerships with other levels of government.

Building Effective Partnerships

Municipal Act, 2001 Reform

- Introducing amendments to the *Municipal Act, 2001*, that, if passed, will strike a balance of appropriate powers and accountability for all municipalities, while recognizing their unique needs.

Stronger City of Toronto for a Stronger Ontario Act

- Realizing a new vision for Toronto — an economically strong, socially and culturally vibrant, and environmentally sustainable city — through the *Stronger City of Toronto for a Stronger Ontario Act*. The government is the first to recognize Toronto in legislation as a responsible, accountable government with broad permissive powers.

Provincial–Municipal Fiscal and Service-Delivery Review

- Embarking with the municipal sector on a review of the provincial–municipal relationship. The review will be broad in scope, and include funding, service delivery and service governance. Its aim is to develop long-term, sustainable options for both levels of government.

AGRICULTURE AND RURAL ONTARIO

Ontario has the largest agriculture sector of any province, with sales of $8.2 billion in 2005. The government recognizes that Ontario farmers face challenges from a variety of external factors – low international commodity prices, the stronger Canada–U.S. exchange rate and changing consumer preferences. The Province is working to maintain a strong, sustainable farm sector and to promote innovation for success in the future. Ontario provides significant support to the province's farmers through a number of important measures.

Building Opportunity for Farmers and Rural Ontarians

On September 19, 2006, the Premier announced $185 million for farmers and rural Ontario:

- $110 million directly to farmers for transitional funding while moving to a better method of valuing inventory under the Canadian Agricultural Income Stabilization (CAIS) program and to continue the Self-Directed Risk Management program
- $75 million for investments in rural infrastructure and economic development.

Other important Ontario initiatives to support farmers include:

- the new Premier's Award for Agri-Food Innovation Excellence — a range of awards will be given, with the Premier's Award and the Minister's Award to be presented at the Premier's 2007 Agri-Food Summit
- $25 million in 2005–06 for the University of Guelph's animal health laboratory, $10 million in 2005–06 for an Ontario livestock and poultry traceability system, and $1 million in 2005–06 for advanced research into hardier grape varietals
- $265 million in 2005 from the retail sales tax exemption for farm products and goods used in agriculture
- $300 million in 2006 from the farm property class tax-rate reduction
- over $800 million from 2003–04 to 2005–06 for farm income stabilization and support
- over $40 million in tax relief from the fuel tax exemption for coloured fuel used in farm equipment
- making an initial $7 million available immediately to help farmers and small rural businesses take early action to protect drinking water.

NORTHERN ONTARIO

The coming years hold unique opportunities and challenges for the economy of northern Ontario. The government is working with the people of this region to prepare for these challenges and build a prosperous future. It is also supporting industries, such as mining and forest products, investing in critical infrastructure and fostering the growth of new companies.

Supporting New Opportunities and New Ideas in Northern Ontario

The government is investing in emerging sectors and infrastructure projects in transportation, health care and education by:

- establishing a Bio-Energy Research Centre in Atikokan
- investing $1.8 billion over five years under the Northern Ontario Highway Strategy and $56 million in immediate investments in roads and bridges under Move Ontario
- opening a new Northern Ontario School of Medicine in 2005, with campuses in Thunder Bay and Sudbury.

The government is implementing the Northern Prosperity Plan through:

- the Go North Investor Program to help raise the international profile of northern Ontario and its communities as a competitive investment location
- a $60 million annual contribution to the Northern Ontario Heritage Fund Corporation (NOHFC) whose refocused mandate promotes private-sector job creation, while continuing to invest in public infrastructure projects that support economic development. Young northerners are taking advantage of NOHFC programs for internships, co-op placements and support for entrepreneurs
- four Northern Development Councils to engage northerners on issues of importance to them.

Forest Products Sector Investments

Since June 2005, Ontario has announced $900 million in assistance available over five years for the forest sector to encourage greater efficiency, higher-value production and reduced delivered wood costs:

- $350 million over five years in loan guarantees to stimulate new investments in value-added manufacturing, energy conservation and energy co-generation
- $150 million over three years in Forest Sector Prosperity Fund grants to leverage new capital investments — support was recently announced for investments in forest product facilities in the communities of Earlton, Sault Ste. Marie and Thunder Bay
- $75 million annually for the construction and maintenance costs of primary and secondary forest access roads
- $70 million in a one-time stumpage fee refund for 2005–06
- $10 million annually by 2007–08 to enhance the Forest Resource Inventory
- $3 million annually for three years to reduce timber fees for poplar veneer and white birch
- $1 million annually starting in 2006–07 for an Ontario Wood Promotion program to enhance value-added manufacturing.

The government has so far received 35 applications for funding from the prosperity fund and loan guarantee program that, if approved, would result in more than $1.2 billion in new investment in Ontario's forest products sector.

The recent agreement to streamline administration of Ontario's corporate tax system will also foster a stronger forestry sector through reduced compliance costs and continued support of R&D and innovation.

Strong Growth Continues in Ontario's Mining Sector

Ontario has a well-established and dynamic mining industry that is recognized throughout the world. Supported by high commodities prices, the industry's mineral production value exceeded $7 billion in 2005. The mining sector employed over 23,000 people in Ontario in 2005.

Ontario's mining sector continues to prosper and attract foreign investment. For example, De Beers Canada has started construction towards opening Ontario's first diamond mine close to Attawapiskat in 2008.

Through new initiatives like Ontario's Mineral Development Strategy, the Ontario Government is working with the mining sector, stakeholders and Aboriginal partners on a strategy to promote long-term sustainability and enhance the mineral sector's global competitiveness. The strength of Ontario's mining sector has helped the Toronto Stock Exchange (TSX) grow into a world leader in mining finance.

In the 2006 Budget, the government announced $10 million to support the launch of the new Centre for Excellence in Mining Innovation at Sudbury's Laurentian University, and the 2005 Budget announced $15 million for geological mapping in the Far North.

Tax support for the mining sector will continue under the recent agreement to streamline administration of Ontario's corporate tax system, which will also foster a stronger mining sector by reducing compliance costs.

Tourism

Ontario's tourism industry employed more than 257,000 people in September 2006, accounting for four per cent of Ontario's total employment. In 2005, the tourism industry contributed $11 billion (or 2.5 per cent) to Ontario's GDP. From 1995 to 2005, tourism employment grew by 24 per cent in Ontario, compared with 23 per cent in the rest of Canada and 16 per cent in the United States.

Support to the Tourism Industry

In the 2005 Budget, the government announced $5 million in marketing efforts to promote Ontario's cultural facilities. In the 2006 Budget, the Province announced a number of new initiatives to benefit the tourism industry:

- $49 million to support capital construction projects for Ontario's major cultural agencies and attractions: the Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art
- $10 million to the Ontario Heritage Trust
- $1 million for the development and production of plans for the 2007 Toronto International Arts Festival.

The completion of Toronto's cultural renaissance by 2008 will also boost tourism in Ontario.

The government will introduce a new campaign to encourage Ontarians to travel and vacation in Ontario, boosting economic activity and tourism-related jobs.

A number of policies and investments aim to strengthen Ontario's manufacturing capacity and enhance opportunities for other sectors in an evolving economy. They help Ontario's diversified economy meet the challenges and opportunities that arise in world markets.

Investing to Attract High-value Jobs

Ontario's future prosperity is closely linked to the growth of high-value jobs in all sectors of its economy. To attract these jobs to the province, the government:

- introduced the $500 million Advanced Manufacturing Investment Strategy to encourage companies to invest in leading-edge technologies and processes.

Maintaining Ontario's Position as North America's Auto Leader

Ontario's strategic investments, including the $500 million Ontario Automotive Investment Strategy, have attracted about $7 billion in investments supporting highly skilled, high-paying jobs:

- General Motors: Oshawa, St. Catharines, Ingersoll — $2.5 billion
- Linamar: Guelph — $1.1 billion
- Toyota: Woodstock — $1.1 billion (first Ontario greenfield auto plant in almost 20 years)
- Ford: Oakville — $1 billion
- DaimlerChrysler: Windsor, Brampton — $768 million
- Navistar: Chatham, Windsor —$270 million
- Honda: Alliston — $154 million
- Nemak: Windsor — $100 million
- Valiant: Windsor — $93 million.

The auto sector continues to evolve and restructure. Ontario's positive investment climate is helping attract automakers to produce new models such as the redesigned Camaro in Oshawa.

Key Tax Measures That Benefit Ontario's Manufacturing Sector

- a corporate income tax (CIT) rate that is two percentage points below the general CIT rate
- a five per cent rate cut in Ontario's capital tax beginning in 2007 and a legislated plan to eliminate the capital tax entirely by 2012
- doubling of the non-capital loss carry-forward period from 10 to 20 years
- a proposed enhanced dividend tax credit to encourage Ontarians to invest in Canadian corporations, including manufacturers
- a 25 to 30 per cent refundable tax credit for businesses hiring apprentices in industrial, construction, motive power and certain service trades
- corporate tax incentives for research and development
- a retail sales tax (RST) exemption for production machinery and equipment
- an RST exemption for reinforced concrete used to make production machinery and equipment
- an RST exemption for materials incorporated into goods for sale
- an Employer Health Tax (EHT) exemption for small businesses, including manufacturers.

INVESTING IN JOBS AND ECONOMIC GROWTH

Over the past three years, the government has managed the Province's finances prudently, while making key investments in health care, education and infrastructure. This economic strategy has laid the foundations for long-term competitiveness.

Building on this strategy, and to assist the workers and communities most affected by slower growth in the economy, the government is allocating a portion of the proceeds of the Teranet initial public offering (IPO) to promote additional job creation while strengthening the social and economic foundations for long-term prosperity.

A Strategy to Further Boost Jobs and Economic Renewal

The government will boost jobs and economic growth through a renewed focus on four key areas:

Focused Training and Job Services

The government will provide new funding for services and programs to help job-threatened and laid-off workers find new jobs, including:

- sending special teams into communities where plants have closed to help develop re-employment action plans for affected workers
- customized training, skills upgrading, job placement and job relocation services
- workplace literacy programs to help workers learn new processes and technologies
- helping laid-off apprentices find new placements and accelerating their in-school learning.

Fast-Tracking Infrastructure Projects

The government will fast-track a number of infrastructure projects, generating immediate economic activity and boosting job creation.

Encouraging Ontario Tourism

The government will introduce a new campaign to encourage Ontarians to travel and vacation in Ontario, boosting economic activity and tourism-related jobs.

Strengthening Interprovincial Trade

The government will strengthen interprovincial trade links to match industrial needs in Alberta with the industrial capacity in Ontario and will explore the merits of joining the Alberta–British Columbia trade agreement.

SECTION II: ONTARIO'S ECONOMIC OUTLOOK

This section addresses Ontario's economic outlook for 2006 to 2009.[1] The economic forecast underlying the fiscal plan is prudent, taking into account external developments and continuing risks. The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.6 per cent for 2006, 2.0 per cent in 2007, 3.0 per cent in 2008 and 3.1 per cent in 2009. These projections are below the average private-sector forecast in every year. The economic outlook supports the forecast for taxation revenue growth in 2006–07 and the following two years outlined later in this Annex.

Over the medium term, Ontario's economic growth could be better than current private-sector forecasters anticipate. The factors that will help bring about stronger growth are taking shape. Recently, energy prices have fallen faster than had been expected, boosting consumer and business confidence. If prices continue to decline, this will increase discretionary consumer spending while lowering business costs. Interest rates are low by historical standards and central banks, including the Bank of Canada and U.S. Federal Reserve, could cut interest rates to stimulate growth. The Canadian dollar has weakened recently and could fall below current projections, improving Ontario's competitive position and providing much-needed relief to Ontario's export-oriented manufacturing sector.

ONTARIO ECONOMIC OUTLOOK (PER CENT)

	2004	2005	2006p	2007p	2008p	2009p
Real GDP Growth	3.1	2.8	1.6	2.0	3.0	3.1
Nominal GDP Growth	5.2	4.1	3.0	3.7	4.7	4.8
Unemployment Rate	6.8	6.6	6.3	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.9	1.6	1.8	1.8

p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

[1] This document is based on information available as of October 20, 2006.

In order to establish its fiscal plans, the government consults with private-sector forecasters in developing its economic projections. As part of the *Fiscal Transparency and Accountability Act 2004*, the Minister of Finance has established the Ontario Economic Forecast Council to provide advice on economic projections and assumptions. The council members are Peter Dungan from the University of Toronto, Ernie Stokes from the Centre for Spatial Economics, and Glen Hodgson of the Conference Board of Canada.

At the time of the 2006 Ontario Budget, private-sector forecasters were, on average, calling for real GDP growth of 2.6 per cent in both 2006 and 2007, 3.1 per cent in 2008 and 3.4 per cent in 2009. Since that time, projections have been revised down, largely reflecting the negative impact of higher oil prices, the stronger Canadian dollar and weaker U.S. growth projections. Currently, the average private-sector forecast for Ontario is 1.7 per cent in 2006, 2.1 per cent in 2007, 3.1 per cent in 2008 and 3.2 per cent in 2009.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)

	2006	2007	2008	2009
Conference Board of Canada (October)	1.6	2.4	3.3	3.3
Global Insight (October)	2.0	2.3	2.6	3.0
Centre for Spatial Economics (June)	2.7	2.2	2.8	3.1
University of Toronto (October)	1.0	1.7	3.0	3.4
BMO Financial Group (October)	1.8	2.3	–	–
RBC Financial Group (October)	1.5	2.0	–	–
Scotiabank Group (October)	1.9	2.0	–	–
TD Bank Financial Group (September)	1.8	2.0	3.6	–
BMO Capital Markets (October)	1.4	2.0	–	–
CIBC World Markets (October)	1.4	1.8	–	–
Private-Sector Survey Average	1.7	2.1	3.1	3.2
Ontario's Planning Assumption	1.6	2.0	3.0	3.1

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Changes in the Global Economic Environment

Ontario continues to face challenges due to external forces that have affected its growth outlook since the 2006 Ontario Budget in March. Oil prices are higher than expected. The Canadian dollar surged to a 28-year high of over 91 cents US in May 2006, and forecasters have increased medium-term projections for its value. As well, the U.S. economic growth outlook has weakened.

One of the biggest changes in the assumptions underlying the economic forecast is the outlook for oil prices. After the 2006 Ontario Budget, oil prices continued to rise, setting a new record for four consecutive months from April to July. Since then, prices have fallen to around $60 US a barrel. Oil price forecasts are, on average, about $10 US per barrel higher than they were at the time of the 2006 Ontario Budget. Higher oil prices reduce the amount of money available for households to spend on other goods and services and increase costs for businesses.

Private-sector forecasts for the Canadian dollar are, on average, over two cents higher than projected at the time of the March Budget. The high value of the Canadian dollar, as well as increased competition from emerging industrialized economies (such as India and China), are leading to restructuring in Ontario's export-oriented manufacturing sector. While some plants have eliminated jobs or shut down, others have become more innovative, investing in new technologies and increasing equipment investment. In many cases, this has led to higher productivity — securing existing jobs and creating new ones.

While U.S. economic growth is expected to slow from 3.4 per cent in 2006 to 2.6 per cent in 2007, the *Blue Chip Economic Indicators* survey projects it will rebound to 3.1 per cent in both 2008 and 2009. Much of the weakness in U.S. growth is due to the slowdown in the U.S. housing market.

Although there is a wide range of views regarding the future direction of monetary policy, forecasters are, on average, calling for interest rates to remain near current levels through 2007 and to edge higher in 2008.

The following table highlights the changes since the Budget in the average private-sector forecast of the key external factors that affect Ontario's economic growth.

Key External Factors Affecting Ontario's Economy
Average Private-sector Forecast

	2006		2007		2008		2009
	2006 Budget	2006 Fall Update	2006 Budget	2006 Fall Update	2006 Budget	2006 Fall Update	2006 Fall Update
Canadian Dollar (Cents US)	86.6	88.5	86.9	88.8	85.9	89.1	88.5
Crude Oil ($ US per Barrel)	60.5	67.2	56.6	64.3	49.9	63.0	59.4
U.S. Real GDP Growth (Per Cent)	3.4	3.4	3.0	2.6	3.1	3.1	3.1
Three-month Treasury Bill Rate (Per Cent)	3.9	4.0	4.1	4.0	4.3	4.2	4.4
10-year Government Bond Rate (Per Cent)	4.3	4.3	4.6	4.2	5.2	4.8	5.1

Sources: Blue Chip Economic Indicators (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

The next table shows the typical range for the first- and second-year impact of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of other circumstances can also have a substantial bearing on the actual outcome. The range of possible impacts reflects a variety of factors. For example:

- A percentage point decrease in U.S. real growth would reduce Ontario real GDP growth by 0.3 to 0.7 percentage points in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar would reduce Ontario real growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as to what extent firms pass lower import costs through to domestic prices for goods and services in Canada.
- A sustained $10 US per barrel increase in the price of world crude oil would lower U.S. growth and trim Ontario's real growth by 0.3 to 0.7 percentage points in the first year. The range is due in part to uncertainty regarding the degree to which higher energy costs affect consumer and business expectations and behaviour. This impact assumes a matching rise in the price of natural gas — a substitute energy source.
- A one percentage point rise in nominal interest rates would reduce Ontario real GDP growth by 0.1 to 0.5 percentage points in the first year. Real growth would be reduced further in the second year, owing to the time it takes for monetary policy changes to affect spending. Higher interest rates discourage interest-sensitive spending, such as housing and durable-goods purchases. The range reflects, in part, the extent to which higher interest income would offset the negative impact.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth[1] (Percentage Point Change)

	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	(0.2) to (0.9)	(0.7) to (1.4)
World Crude Oil Prices Increase by $10 US per Barrel	(0.3) to (0.7)	(0.1) to (0.5)
U.S. Real GDP Growth Decreases by One Percentage Point	(0.3) to (0.7)	(0.4) to (0.8)
Canadian Interest Rates Increase by One Percentage Point	(0.1) to (0.5)	(0.2) to (0.6)

[1] Impacts based on changes being sustained.
Parentheses denote declines.
Source: Ontario Ministry of Finance.

Changes in the Economic Outlook for 2006

The Ministry of Finance has revised its real GDP growth assumption for 2006 to 1.6 per cent, down from 2.3 per cent in the 2006 Ontario Budget and below the current private-sector average.

The domestic side of the economy has performed well, leading to stronger-than-expected job creation. Despite softer real GDP growth, Ontario employment in 2006 is now expected to grow by 1.4 per cent — above the Budget projection of 1.3 per cent.

The outlook for retail sales continues to be buoyant. Housing activity has been stronger than expected, with housing starts projected to reach 75,000 units this year, up from the Budget projection of 73,500. Business investment in machinery and equipment is projected to be stronger than expected at the time of the Budget, but non-residential construction investment spending is projected to be somewhat slower.

Exports have been softer than expected while imports have risen faster. The outlook for corporate profits has declined significantly since the Budget, reflecting ongoing high oil prices, a higher Canadian dollar and softening U.S. demand.

The next table shows changes in key forecast components compared with the 2006 Ontario Budget projection.

The Ontario Economy in 2006 (Per Cent Change)

	2006 Budget	2006 Fall Update
Real Gross Domestic Product	2.3	1.6
Personal consumption	2.8	3.1
Residential construction	(2.1)	(1.2)
Non-residential construction	5.9	4.5
Machinery and equipment	7.9	8.7
Exports	2.5	(0.5)
Imports	3.4	3.5
Nominal Gross Domestic Product	4.5	3.0
Other Economic Indicators		
Retail sales	4.2	4.2
Housing starts (000s)	73.5	75.0
Personal income	4.7	4.6
Wages and salaries[1]	4.7	4.3
Corporate profits	3.8	(1.0)
Consumer Price Index	2.1	1.9
Labour Market		
Employment	1.3	1.4
Job creation (000s)	85	92
Unemployment rate (per cent)	6.3	6.3

[1] Includes supplementary labour income.

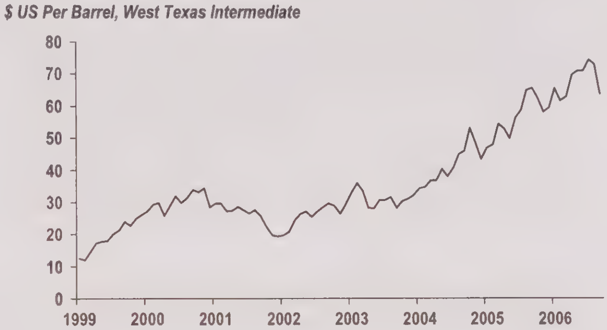
Source: Ontario Ministry of Finance.

The short-term economic outlook is strongly influenced by external factors, such as oil prices, U.S. economic growth, the Canadian dollar and interest rates. The next section discusses the outlook for the external factors in more detail and the forecast for Ontario's exports. This is followed by a discussion of the outlook for jobs, household spending and investment.

Oil and Gas Prices

Crude oil prices have more than tripled since early 2002, averaging about $68 US per barrel so far in 2006, and are on pace to break last year's record of $56.50 US per barrel. The main factors affecting energy markets in recent years – strong global demand, heightened geopolitical risks, supply concerns and slow growth in oil production and refinery capacity – continue to play a major role in 2006.

Crude Oil Prices



Source: New York Mercantile Exchange.

After surging to a record high of more than $78 US per barrel in mid-July 2006, oil prices have now dropped to around $60 US per barrel, reflecting a decline in speculative pressures. For one thing, the 2006 Atlantic hurricane season has been less severe than expected, limiting storm damage to the Gulf Coast oil-producing region. In addition, U.S. crude inventories were well supplied at the end of the summer's busy driving season.

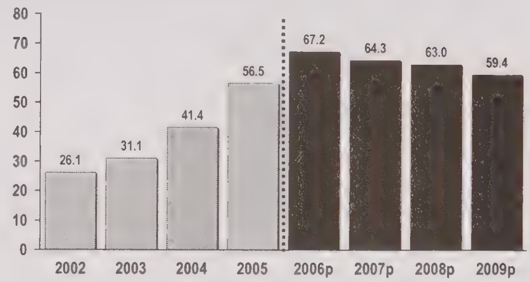
Natural gas prices plunged 25 per cent in September to average $5.20 US per million British Thermal Units (MMBtu) – the lowest monthly average in two years. They have averaged about $6.90 US per MMBtu so far in 2006, down from a record annual average of $9.00 US per MMBtu in 2005, but significantly higher than in 2002, when prices averaged $3.40 US per MMBtu. Mild weather last winter left natural gas inventories at high levels at the start of the summer. The less severe 2006 Atlantic hurricane season and slowing U.S. economy, coupled with robust natural gas inventories, were the key factors that pulled prices down recently. Barring any extreme weather or major geopolitical event, forecasters generally expect natural gas prices will average about $8.25 US per MMBtu each year over the forecast horizon.

The cooling U.S. economy, which accounts for about one-quarter of global crude oil demand, could lead to softer global demand growth. However, strong growth in China, which has constituted 40 per cent of the increase in world oil demand over the past four years, will limit the slowdown in demand growth. The U.S. Energy Department estimates world oil demand will increase by 1.5 million barrels a day – or 1.8 per cent – in 2007, with over half the demand growth to come from the United States and China. U.S. oil demand is forecast to rise by 350,000 barrels a day – or 1.7 per cent – and Chinese consumption is projected to increase by 500,000 barrels a day – or 6.8 per cent – in 2007.

Forecasters predict that crude oil markets will remain tight over the next few years and are calling for prices to average $67.20 US per barrel in 2006 and $64.30 US per barrel in 2007. Oil price volatility will likely persist, reflecting limited expected increases to surplus capacity in 2007, coupled with concerns about the market's ability to respond to a major supply disruption. Projections for oil prices range from $57.80 US per barrel to $71.80 US per barrel in 2007. Oil producers are pouring significant amounts into the exploration and development of both conventional and non-conventional sources of oil. As new capacity comes online over the medium term, the fundamentals will be in place to support a drop in crude oil prices.

Crude Oil Price Forecast

$ US Per Barrel, West Texas Intermediate



p = private-sector survey average.
Sources: New York Mercantile Exchange and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Higher oil and gas prices have a negative impact on the provincial economy and government revenues. Because the Ontario economy imports virtually all of its oil, it is vulnerable to sustained elevated oil prices. Higher oil and gas prices increase household expenses, reducing discretionary spending on other goods and services. For many businesses, higher gasoline and oil prices increase operating costs, reducing profits and their ability to fund new investments.

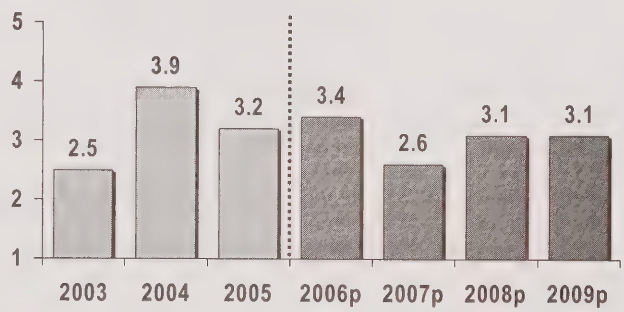
For planning purposes, the Ministry of Finance forecasts oil prices to average $67.50 US per barrel in 2006, $65.00 US per barrel in 2007, $64.00 US per barrel in 2008 and $60.00 US per barrel in 2009.

U.S. Economy

The U.S. economy is expected to grow by 3.4 per cent in 2006. The pace of activity has slowed from 5.6 per cent at an annual rate in the first quarter to 2.6 per cent in the second quarter. Economists expect growth to moderate in the second half of this year and into 2007. The *Blue Chip Economic Indicators* survey calls for real GDP growth to slow to 2.6 per cent in 2007 and then rebound to 3.1 per cent in both 2008 and 2009.

U.S. Real GDP Growth

Per Cent



p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2006).

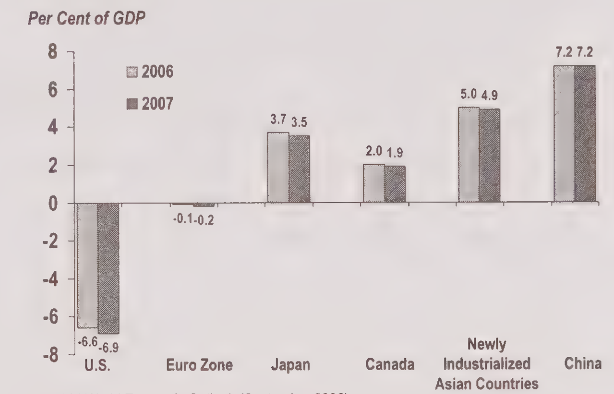
After increasing interest rates by 4.25 percentage points since June 2004, it appears the U.S. Federal Reserve may have ended its tightening cycle. Private-sector forecasters, on average, predict the Federal Reserve will remain on hold for the rest of the year and will cut rates by 0.50 percentage points next year as inflation eases and growth remains moderate.

While most forecasters expect the U.S. economy to keep growing, there are significant risks to the outlook. Higher mortgage rates and lower housing affordability have caused residential construction to decline and home prices to soften. That reduces funds available through mortgage equity withdrawal to support consumer spending.

The negative impact of the housing slowdown is likely to be cushioned by solid growth in labour income and lower projected gasoline prices and interest rates, which will support healthy consumer spending. In addition, profit margins remain high and business investment remains robust. Nonetheless, slower growth in the U.S. economy — Ontario's largest export market — will have an impact on Ontario's economic growth.

There is also concern that record current account deficits and a high budget deficit could expose the U.S. economy to a potential cutback in foreign capital inflows. The U.S. federal budget deficit is projected to improve to $260 billion US in the 2006 fiscal year, or 2.0 per cent of GDP, compared with $318 billion US, or 2.6 per cent of GDP, in 2005. However, the U.S. current account deficit has continued to deteriorate, equivalent to 6.6 per cent of GDP in the second quarter, up from 6.4 per cent of GDP in 2005. At the same time, current account surpluses in China and newly industrialized Asian countries have remained large. With active currency management in Asia, global savings have risen, holding global interest rates down and making it easier for U.S. consumers to borrow.

Current Account Deficits and Surpluses



Source: IMF World Economic Outlook (September 2006).

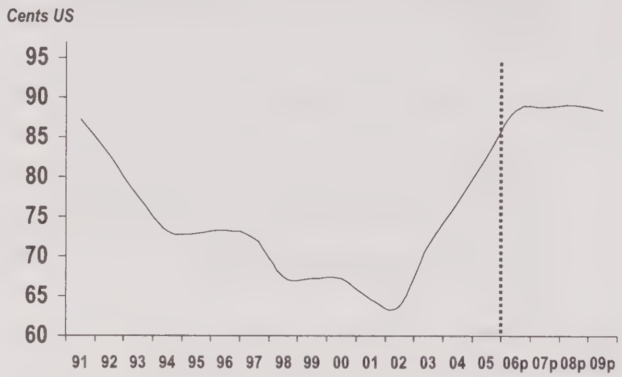
Private-sector forecasters expect the U.S. current account deficit to show little improvement in 2007. The longer global imbalances last, the more vulnerable the United States may be to a sharper correction, affecting the value of the U.S. dollar. A steep decline in the U.S. dollar would likely result in considerably higher interest rates, which would be required to compensate foreign investors for the increased risk of holding U.S.-denominated debt. These factors would contribute to further weakening in consumer and business demand. If that were to happen, Ontario's exports would be hit by both a weak U.S. dollar and declining U.S. demand.

The Canada–U.S. Exchange Rate

The Canadian dollar has appreciated dramatically against the U.S. currency over the past four years. On a trade-weighted basis, the Canadian dollar has appreciated more than any other major currency since the beginning of 2002, reflecting high commodity prices and solid economic growth in Canada.

The unprecedented rise of the dollar, along with growing competition from low-cost producers in newly industrializing countries, has created challenges for Ontario exporters. U.S. travel to Ontario has also been adversely affected by the strength of the dollar and other factors.

Canadian Dollar



Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Despite the high value of the Canadian dollar, Ontario industry remains competitive in the global marketplace. The higher dollar lowers the cost of imported machinery and equipment — about 60 per cent of the Province's machinery and equipment is imported. This makes it easier for Ontario manufacturers to shift to producing higher-value products. The appreciation of the Canadian dollar has also benefited Ontario consumers by lowering prices of imported goods and helping to offset some of the impact of higher oil prices.

Forecasters predict an easing in oil and other commodity prices. This should limit further appreciation of the Canadian dollar, removing some of the competitive pressures on the Ontario economy. The private sector expects the Canadian dollar to average 88.5 cents US in 2006, 88.8 cents US in 2007, 89.1 cents US in 2008 and 88.5 cents US in 2009.

For planning purposes, it is assumed the Canadian dollar will average 88.5 cents US in 2006 and 89.0 cents US in 2007 through 2009.

The Canadian Dollar Outlook (Cents US)

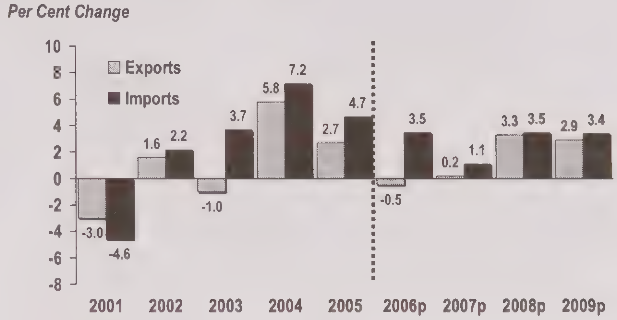
	2006p	2007p	2008p	2009p
Private-sector Average	88.5	88.8	89.1	88.5
High	88.9	94.0	90.9	91.0
Low	88.0	82.6	86.9	85.6
Ministry of Finance	88.5	89.0	89.0	89.0

p = projection.
Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Exports and Imports

Ontario's exports are expected to decline modestly in 2006. The Province's real net trade surplus narrowed to $25.1 billion in the second quarter of 2006. This is due to a higher dollar, weaker demand in the United States and restructuring in the auto industry. The trend is expected to continue in 2007, with exports projected to increase by only 0.2 per cent. Ontario's exports are projected to rebound in 2008 and 2009, as U.S. growth picks up momentum and new auto product lines come on-stream.

Ontario Real International and Interprovincial Trade



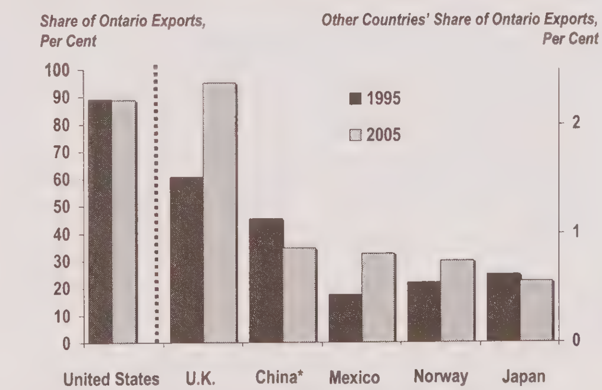
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The auto sector accounted for 44 per cent of Ontario's merchandise exports in 2005, with 98 per cent of these exports destined for the United States. Ontario continues to be the largest motor-vehicle assembler in North America, surpassing Michigan in each of the past two years. With U.S. auto sales expected to decline to 16.6 million in 2006 from last year's pace of 16.9 million, Ontario exporters are experiencing a decline in demand for auto parts and assembled vehicles. Private-sector forecasters predict U.S. auto sales will ease further to 16.4 million in 2007. In the medium term, Ontario auto exports will benefit from new production lines, including a Toyota plant in Woodstock scheduled to begin production in 2008 and the introduction of the newly designed Camaro in Oshawa in 2009.

Industrial goods and materials exports (such as iron, steel, other metals, rubber and plastic), which account for 19.2 per cent of Ontario's exports, comprise one of the strongest-growing export categories, up 6.4 per cent on a year-to-date basis. Declining commodity prices would likely restrain the value of exports over the forecast period.

Machinery and equipment, which make up 20.5 per cent of the province's exports, are up 2.9 per cent so far this year. These exports are expected to continue strengthening, due to strong global demand. For example, real business investment in machinery and equipment in the United States is projected to increase by 7.3 per cent in 2006 and by an average of 6.4 per cent in 2007 to 2009.

Ontario's Top Six Merchandise Export Partners



* Includes China, Hong Kong and Mongolia.
Source: Statistics Canada.

The United States is Ontario's largest trading partner, accounting for almost 90 per cent of Ontario's international merchandise exports. Over the past three years, Ontario's nominal merchandise exports to the United States have fallen by five per cent. So far this year, Ontario's exports to the United States are down a further 2.1 per cent.

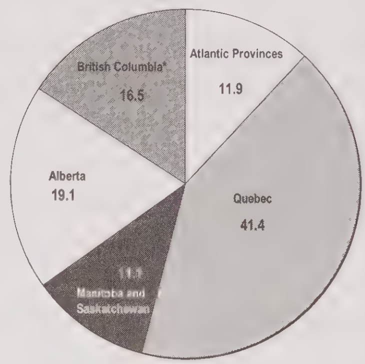
Exports to countries other than the United States, however, have increased by 64 per cent over the past three years. Increasing diversification means Ontario's exporters can benefit from strong global growth. The European Union (EU) is Ontario's second-largest trading partner, accounting for almost five per cent of Ontario's international exports. Exports to the EU rose 67 per cent over the past three years and are up a further 24 per cent so far this year. Ontario exports to Mexico have risen 43 per cent over the past three years and are up over 52 per cent so far this year. China accounts for about one per cent of Ontario's international exports, but Ontario exports to China have risen 57 per cent over the past three years. Exports to India have more than doubled over the past three years, but India accounts for just 0.1 per cent of total international exports.

Exports of goods and services to Canada's other provinces and territories are also important to Ontario. Exports to the rest of Canada totalled $100.3 billion in 2005, while Ontario's international exports totalled $232.7 billion. Between 2002 and 2005, exports to other provinces grew over 12 per cent — while international exports were down 0.5 per cent. The trend of interprovincial exports outpacing international exports is continuing. Exports to other provinces are up 1.3 per cent so far this year, well ahead of growth in international exports, which are up only 0.5 per cent. Continuing strength in Western Canada should provide a lift to Ontario exports over the forecast horizon.

Ontario's imports continue to grow at a rapid pace, as a result of solid growth in domestic demand and a strong dollar. While the vast majority of Ontario's imports come from the United States, other regions are becoming more prominent. Imports from China have risen by almost 90 per cent over the last three years and are up over 17 per cent so far this year. Imports from the EU are up 6.4 per cent.

Share of Ontario Interprovincial Exports, 2002

Per Cent

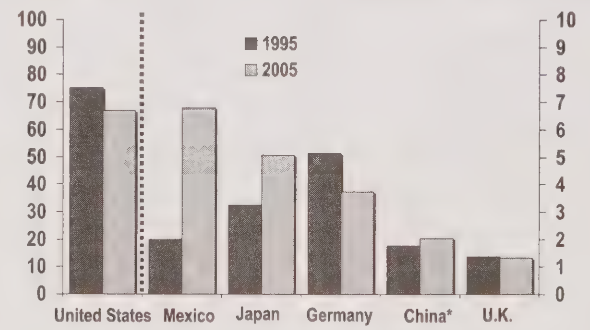


* Includes Territories

Source: Statistics Canada.

Ontario's Top Six Merchandise Import Partners

Share of Ontario Imports, Per Cent *Other Countries' Share of Ontario Imports, Per Cent*



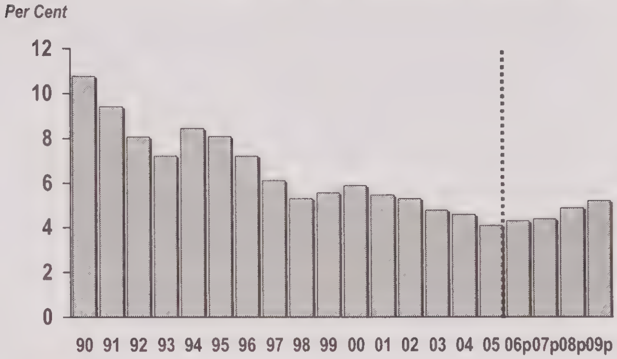
* Includes China, Hong Kong and Mongolia.

Source: Statistics Canada.

Interest Rates and Inflation

Since May 2006, the Bank of Canada has left its benchmark rate unchanged at 4.25 per cent, after increasing interest rates 2.25 percentage points since September 2004. Inflationary pressures appear to be regional, centred in Alberta's labour and housing markets. Forecasters generally believe that the Bank of Canada will leave rates unchanged for the remainder of 2006 as they view the risks to the Canadian economy as being balanced.

10-Year Government of Canada Bond Rate



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Private-sector economists expect Canadian three-month treasury bill rates to average 4.0 per cent in both 2006 and 2007, 4.2 per cent in 2008 and 4.4 per cent in 2009. Ten-year Government of Canada bond yields are forecast to average 4.3 per cent in 2006, 4.2 per cent in 2007, 4.8 per cent in 2008 and 5.1 per cent in 2009.

The U.S. Federal Reserve Board has held its target for the federal funds rate steady at 5.25 per cent since June 2006, after 17 consecutive one-quarter percentage point increases since June 2004. Forecasters expect that the Federal Reserve, like the Bank of Canada, will remain on hold through the end of 2006.

Oil price movements over the past several years have been a key force affecting inflation. Ontario's CPI inflation rate was 0.2 per cent in September, down from a peak of 3.3 per cent in September 2005, when gasoline prices averaged $1.11 per litre. Plus, the one percentage point cut in the federal goods and services tax (GST) in July 2006 further reduced the CPI inflation rate by an estimated 0.6 per cent. Ontario's CPI inflation rate is expected to average 1.9 per cent in 2006.

The rising Canadian dollar has helped to offset some of the impact of higher energy prices on Ontario CPI inflation. Looking forward, analysts generally expect the exchange rate will remain around 89 cents US, removing the impact on inflation of a steadily rising dollar.

Overall, inflationary pressures are well contained over the forecast horizon. Ontario's CPI inflation rate is expected to fall to 1.6 per cent in 2007, reflecting lower energy prices, the impact of the 1.0 percentage point GST reduction and a gradual slowing in home-replacement costs. Once the impact of the GST cut no longer affects year-to-year price changes and energy prices stabilize, CPI inflation is projected to rise to an average of 1.8 per cent in both 2008 and 2009. This forecast excludes the impact of the federal government's proposed additional one percentage point reduction in the GST.

Canadian Interest Rate and Inflation Outlook (Annual Per Cent)

	2005	2006p	2007p	2008p	2009p
Three-month Treasury Bill Rate	2.7	4.0	4.2	4.5	4.6
10-year Government Bond Rate	4.1	4.3	4.4	4.9	5.2
Ontario CPI Inflation Rate	2.2	1.9	1.6	1.8	1.8

p = projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

Supporting Ontario's Small Business Sector

Small businesses are an important part of the Ontario economy. Businesses with fewer than 50 employees account for 39 per cent of employment in the province.

The government is committed to encouraging growth in the small business sector. Tax measures to help small business include:

- the small business deduction, which reduces Ontario's general corporate income tax rate for small Canadian-controlled private corporations, providing an estimated benefit of about $900 million annually
- an exemption from Ontario's capital tax for small businesses, credit unions, caisses populaires, family farm corporations and family fishing corporations that saves them over $300 million annually
- the Employer Health Tax exemption, which will provide small private-sector employers with a benefit of approximately $590 million for the 2006 tax year
- a 10 per cent refundable tax credit for small corporations performing research and development (R&D) in Ontario
- enhanced refundable tax credit rates for small business for hiring apprentices or co-op students.

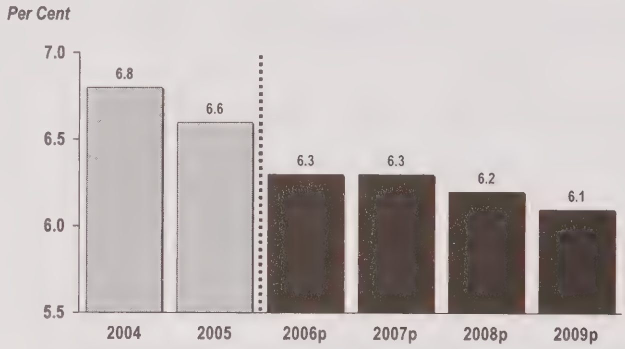
Ontario and the federal government have signed an agreement that would transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency, starting with taxation years ending after December 31, 2008. A single corporate tax administration, one tax return and one common set of administrative rules would cut the paper burden and other tax compliance costs faced by small business (see Annex IV, *Corporate Tax Harmonization*).

Ontario is working with the small business sector to simplify Ontario tax administration. It is also working with the Small Business Agency of Ontario to help small businesses grow and succeed, and reducing paper burden to save owners and entrepreneurs time and money.

As well, the Province has an array of apprenticeship and skills training programs to address potential skills shortages, and is taking further measures to expand Ontario's skilled labour supply. The new Ministry of Small Business and Entrepreneurship, created in May 2006, will help to promote the success of small businesses in Ontario.

The Ontario economy has created 103,600 net jobs so far in 2006, bringing the total net new positions added since October 2003 to 254,100. Full-time employment accounted for all of the job gains this year, with full-time positions replacing part-time ones. Most of these new jobs were in the service sector, which is gaining a greater share of Ontario's economy — a trend paralleled in most industrialized countries. Domestic-oriented sectors of the economy have been thriving. The largest job gains so far this year have come from finance, insurance and real estate (25,200); education (25,100); information, culture and recreation (23,800); business, building and other support services (16,800); professional, scientific and technical services (16,800); wholesale and retail trade (13,800); and construction (13,600).

Ontario Unemployment Rate



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

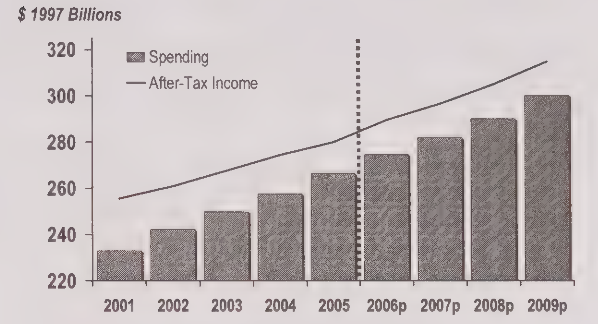
Record-high oil prices and the high Canadian dollar, along with competition from low-cost global producers, have exerted increased pressure on the goods-producing industries, particularly the export-oriented manufacturing sector. Yet, while economic conditions have adversely affected many manufacturers, the sector is investing for future success. Ontario has supported numerous new developments with funding from its Advanced Manufacturing Investment Strategy and Ontario Automotive Investment Strategy. In the last six months, there have been encouraging signs for this sector, as companies assisted by these two programs, including Linamar, General Motors, Diamond Aircraft Industries, Messier-Dowty Inc. and Procter and Gamble Inc., have created or secured thousands of manufacturing positions.

For 2006 as a whole, employment is expected to grow by 1.4 per cent and the unemployment rate is projected to fall from 6.6 per cent in 2005 to 6.3 per cent — the lowest annual rate since 2001. Looking ahead to 2007, employment is forecast to continue growing at a healthy rate of 1.2 per cent or 76,000 jobs. As the economy gathers momentum in 2008 and 2009, employment growth is expected to accelerate to 1.6 per cent per year. Strong job gains should lower Ontario's unemployment rate to 6.1 per cent in 2009.

HOUSEHOLD SPENDING

Healthy employment and wage gains in Ontario are contributing to strong growth in personal income, with an expected rise of 4.6 per cent in 2006. Personal disposable income is forecast to increase by 4.7 per cent, partly reflecting energy rebates for low-income households and federal tax cuts. As previously announced, the Government of Ontario will provide $100 million in assistance to low-income Ontarians this fall — up to $120 per family — to help them with higher electricity costs over the past year. Personal income is projected to grow by 4.1 per cent in 2007 and by an average of 4.9 per cent per year in 2008 and 2009. The growth forecast in employment, wages and incomes supports the outlook for increasing Personal Income Tax and Employer Health Tax revenues.

Ontario Real Consumer Spending and Real After-Tax Income

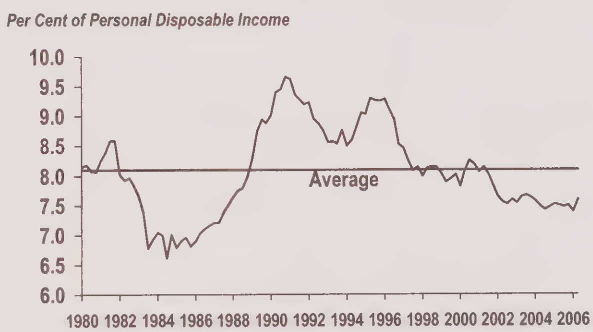


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Not surprisingly, these strong income gains are leading to robust consumer spending. Real consumer spending is expected to grow by 3.1 per cent in 2006, following a 3.5 per cent gain in 2005. Consumer spending is projected to increase by an average of 3.0 per cent over the 2007 to 2009 period, in line with growth in personal disposable income. Purchases of durables are expected to slow, reflecting the softening housing market and reduced auto sales, while spending on services is expected to strengthen. The growth in consumer spending can be expected to boost Retail Sales Tax revenues over the forecast period.

The ratio of Canadian household debt costs to personal disposable income was 7.6 per cent in the second quarter of 2006, down from a recent high of 8.3 per cent in the third quarter of 2000.

Canadian Household Debt Interest Costs



Sources: Finance Canada and Statistics Canada.

Over the first seven months of 2006, Ontario's retail sales rose by 4.3 per cent over the same period last year. Home and hardware centres and home-furnishing retailers saw strong growth, supported by a healthy housing market as home purchases translated into renovation, landscaping and decoration activity. However, new car sales, the biggest-ticket item, are down 2.2 per cent compared with the same period last year, when substantial discounts were offered on vehicles. As new car dealers are the largest retailer category, accounting for about 20 per cent of sales in Ontario, the weakness in sales limited overall retail sales growth. In contrast, sales at gas

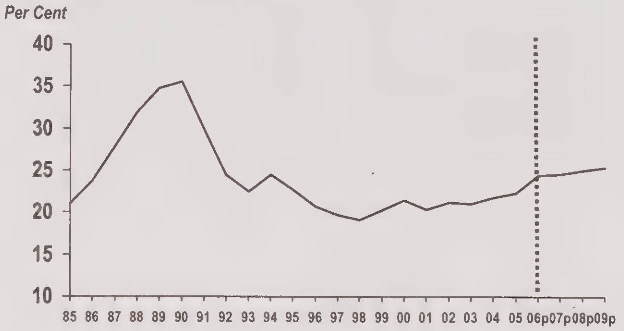
stations continued to account for a larger share of retail sales as gas prices averaged 7.6 per cent higher so far this year. Excluding sales at gas stations, Ontario retail sales are up 2.9 per cent over the first seven months of the year, compared with an increase of 3.7 per cent in 2005.

After years of robust activity, helped by low mortgage rates, the housing market is moderating. However, it is stronger than expected. The sales-to-new-listings ratio dropped from the recent high of 73.9 in the first quarter of 2002 to 55.9 in the second quarter of 2006. The larger supply of existing homes should translate into slower house-price appreciation in the near future.

Home resales in the province declined 0.2 per cent in 2005 and are expected to dip by 2.0 per cent this year and a further 4.4 per cent in 2007. Although mortgage rates have edged up slightly over the past year, mortgage payments as a share of after-tax income continue to be low by historical standards as income growth remains solid. Softer demand has contributed to more moderate house price gains. The average resale price of a house in Ontario rose 6.8 per cent in the first half of 2006, compared with an average increase of 7.7 per cent in the past two years. In the medium term, moderate house price increases and rising incomes, along with relatively steady mortgage rates, will keep housing affordable.

Ontario's new housing market remains resilient. Housing starts for 2006 are projected to reach 75,000 units, down from 78,800 in 2005, with starts of single housing units falling more than multiples — townhomes, apartment buildings and condominiums. The number of housing starts is expected to decline to 70,000 units in 2007 and then improve to 71,000 units in 2008 and 72,000 units in 2009.

Ontario Housing Affordability



p = projection.
Note: The average monthly carrying costs for an average-priced home as a share of after-tax household income, based on payments amortized over 25 years and a 25 per cent down payment.
Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

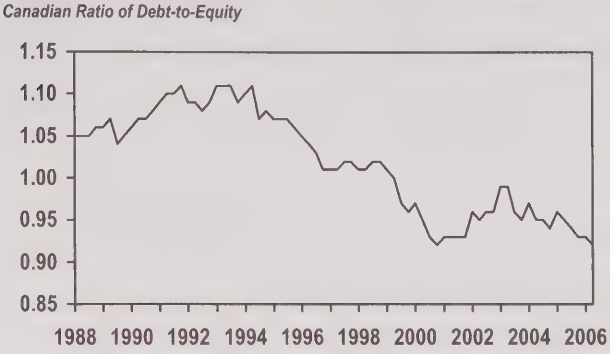
Investment to Lead Growth

The outlook for 2006 investment remains positive. The Canadian debt-to-equity ratio has continued to decline in the last couple of years. Although Ontario corporate profits as a share of GDP have declined to around 11 per cent, they remain well above the historical average. Healthy balance sheets and low interest rates are a positive for investment.

While the high dollar and high energy prices are likely to dampen corporate profits in 2006, the exchange rate makes it considerably cheaper to import new machinery and equipment. The value of Ontario imports of machinery and equipment is up 1.9 per cent so far this year while prices are down 5.4 per cent.

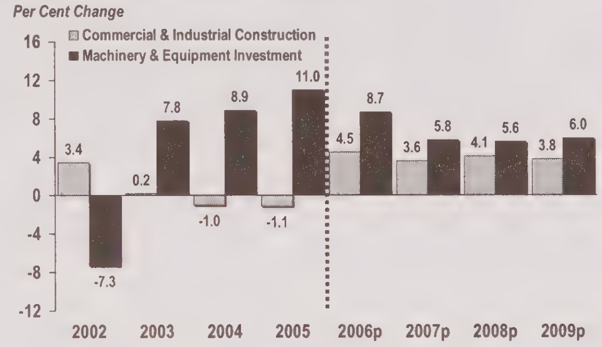
According to Statistics Canada's *Private and Public Investment Intentions Survey*, growth in machinery and equipment investment is expected to be buoyant, led by finance, insurance and real estate (9.8 per cent or $11.7 billion); information and culture (9.0 per cent or $3.3 billion); utilities (68.6 per cent or $2.5 billion); construction (11.2 per cent or $2.0 billion); and wholesale trade (11.2 per cent or $1.7 billion). Investment in machinery and equipment is an important source of productivity growth, as it often embodies technological advances. While investment spending in current dollars has not grown as fast as profits, this represents a substantial increase in real terms, as the cost of purchasing machinery and equipment has fallen. In 2005, real machinery and equipment investment grew at an 11.0 per cent rate — its fastest pace since the technology boom in the late 1990s. Real investment in machinery and equipment is projected to rise by 8.7 per cent in 2006 and by an average of 5.8 per cent from 2007 through 2009.

Business Balance Sheets Are Strong



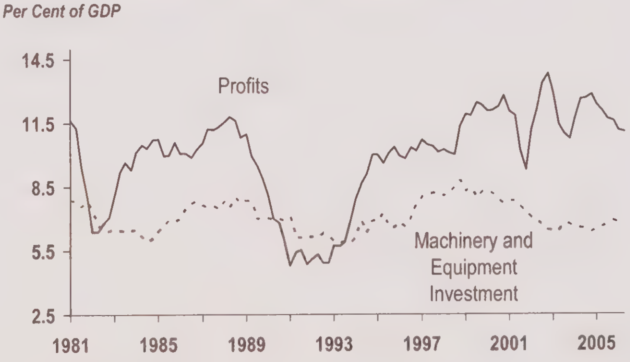
Source: Statistics Canada.

Real Business Investment



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Profits and Investment



Source: Statistics Canada.

Commercial and industrial construction has strengthened in 2006. Outlays are projected to advance 4.5 per cent in 2006 and an average of 3.8 per cent annually over the 2007 to 2009 period. According to the *Private and Public Investment Intentions Survey*, the biggest increase in outlays in 2006 will come from utilities (up 47.7 per cent or $3.6 billion); finance, insurance and real estate (up 7.2 per cent or $2.2 billion); transportation and warehousing (up 56.9 per cent or $1.8 billion); and retail trade (up 25.7 per cent or $1.6 billion).

Promoting Investment in the Entertainment and Creative Cluster

In 2005, the entertainment and creative cluster contributed nearly $9.9 billion to Ontario's economy (2.2 per cent of GDP) and employed approximately 185,000 people, accounting for 42 per cent of Canada's total workforce in this cluster.

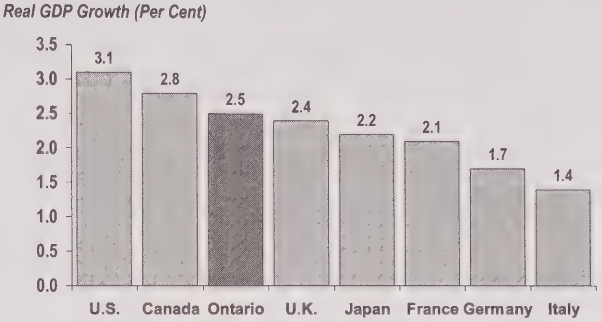
The government is moving forward in implementing a number of initiatives announced in the 2006 Budget to support the entertainment and creative cluster in Ontario. It has:

- approved the extension of the Ontario Production Services Tax Credit until March 31, 2007
- proposed the enhancement of the Ontario Interactive Digital Media Tax Credit
- provided $49 million to support Ontario's major cultural agencies and attractions: the Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art
- provided $10 million to the Ontario Heritage Trust
- launched the Entertainment and Creative Cluster Partnerships Fund in September 2006
- provided $1 million in support for the 2007 Toronto International Arts Festival.

Economic Outlook Comparison with G7 Countries

Ontario is expected to remain among the fastest-growing industrial jurisdictions over the medium term despite the challenges facing it. Private-sector forecasters project that over the 2006 to 2009 period, real GDP growth in Ontario will average 2.5 per cent a year — ahead of all G7 countries, except Canada as a whole and the United States.

Ontario vs. the G7
2006 to 2009 (Average)



Sources: Consensus Forecasts (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Government policy plays a vital role in helping to maintain and enhance Ontario's competitive advantages and in attracting high-value jobs to ensure the economy can weather the challenges it faces. Investments in infrastructure, education and skills training, and partnerships to promote business investment and innovation, support the fundamental strengths of the province and underpin near-term economic activity. All of these factors will foster economic growth in a highly competitive global market.

Ontario and G7 Economic Outlook, 2006 to 2009
Real GDP Growth (Per Cent)

	2006	2007	2008	2009
Ontario	1.7	2.1	3.1	3.2
Canada	2.8	2.6	2.9	3.0
United States	3.4	2.6	3.1	3.2
France	2.3	2.0	2.0	2.1
Germany	2.2	1.2	1.7	1.6
Italy	1.6	1.2	1.4	1.5
United Kingdom	2.6	2.4	2.3	2.2
Japan	2.8	2.2	2.0	1.6

Sources: Consensus Forecasts (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

This table shows the key details of the updated economic outlook for the 2006 to 2009 period.

THE ONTARIO ECONOMY, 2004 TO 2009
(PER CENT CHANGE)

	Actual		Projected			
	2004	2005	2006	2007	2008	2009
Real Gross Domestic Product	3.1	2.8	1.6	2.0	3.0	3.1
Personal consumption	3.1	3.5	3.1	2.6	2.9	3.4
Residential construction	3.5	0.8	(1.2)	(2.8)	2.0	3.0
Non-residential construction	(1.0)	(1.1)	4.5	3.6	4.1	3.8
Machinery and equipment	8.9	11.0	8.7	5.8	5.6	6.0
Exports	5.8	2.7	(0.5)	0.2	3.3	2.9
Imports	7.2	4.7	3.5	1.1	3.5	3.4
Nominal Gross Domestic Product	5.2	4.1	3.0	3.7	4.7	4.8
Other Economic Indicators						
Retail sales	3.2	4.7	4.2	3.8	4.7	4.6
Housing starts (000s)	85.1	78.8	75.0	70.0	71.0	72.0
Personal income	4.5	4.7	4.6	4.1	4.7	5.0
Wages and salaries[1]	4.7	5.0	4.3	4.1	4.8	5.1
Corporate profits	13.7	(0.4)	(1.0)	3.0	6.0	5.4
Consumer Price Index	1.9	2.2	1.9	1.6	1.8	1.8
Labour Market						
Employment	1.7	1.3	1.4	1.2	1.6	1.6
Job creation (000s)	103	81	92	76	103	108
Unemployment rate (per cent)	6.8	6.6	6.3	6.3	6.2	6.1

[1] Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

SECTION III: ONTARIO REVENUE OUTLOOK

The revenue forecast reflects developments to date and the current economic outlook, but there are risks to the forecast that the Province will continue to monitor over the coming months. Recent signs of weakness in corporate profits give rise to concerns for historically volatile Corporations Tax revenues. Uncertainty remains regarding the 2005 Canada–Ontario Agreement, posing a challenge to developing the revenue outlook and fiscal plan. Ontario does not accept the federal position that the unanticipated measures announced by the federal government in its 2006 budget count towards the Agreement. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

Since the 2006 Ontario Budget, the economic growth outlook for 2006 to 2008 has softened, reflecting higher oil prices, a stronger Canadian dollar and a slower growth outlook for the U.S. economy. The negative revenue impact in 2006–07 of slower economic growth is offset by proceeds from the Teranet Income Fund initial public offering (IPO) and higher revenues related to processing of prior years' tax returns. The revenue increase related to prior years is largely one-time in nature, with only a portion of the increase carrying forward over the medium term. Also contributing to higher 2006–07 revenues is Ontario's share of Government of Canada transfers to all provinces and territories under the federal trusts announced in the 2006 federal budget.

Over the medium term, slower projected economic growth results in a lower forecast for taxation revenues. Partly offsetting the revenue impact of less robust economic growth are higher revenues related to processing of prior years' tax returns and Government of Canada transfers under the federal trusts.

The 2006 Ontario Budget included $2.2 billion of funding from the 2005 Canada–Ontario Agreement in its medium-term fiscal plan. The Agreement, although historic and a significant victory for the people of Ontario, represented just a first step towards addressing Ontario's fairness issues. Regrettably, it has not yet been honoured by the new federal government. The federal government made an unequivocal commitment to honour the Agreement, recognizing that it was in the interests of all Ontarians and all Canadians to invest in a fair way in Ontario's prosperity. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

2006–07 Revenue Outlook

Total revenue in 2006–07 is currently projected to be $87,044 million, an increase of $1,314 million from the 2006 Budget Plan.

Summary of 2006–07 In-year Revenue Changes Since Budget ($ Millions)		
Taxation Revenue		
Personal Income Tax	650	
Corporations Tax	(260)	
Tobacco Tax	(80)	
Employer Health Tax	(15)	
Ontario Health Premium	(10)	
		285
Government of Canada		
Trusts Announced in 2006 Federal Budget	456	
		456
Other Non-tax Revenue		
Teranet IPO	573	
		573
Total Revenue Changes		1,314

The Personal Income Tax revenue outlook for 2006–07 has increased by a net amount of $650 million. Processing of personal income tax returns during 2006 has resulted in higher revenues largely related to prior years. This results in a substantial increase in revenues in 2006–07 as higher prior-year tax revenues than included in past Public Accounts must be reflected in the current year. Only a portion of this increase carries forward over the medium term. The 2006–07 increase is partially offset by the impact of slower projected wages and salaries growth in 2006. The 2006–07 Personal Income Tax revenue forecast also reflects an estimated $30 million revenue decrease due to tax changes since the 2006 Ontario Budget.

- In August 2006, the Province announced that it would create a new, enhanced dividend tax credit to encourage more investment by Ontarians in Canadian corporations, and to improve the integration of the corporate and personal income tax systems.
- Ontario will also parallel proposed federal tax changes that would provide benefits to Ontarians, including a full exemption for postsecondary student scholarship income, a tax deduction for tradespersons, and the elimination of capital gains on certain charitable donations.

The Corporations Tax revenue outlook for 2006–07 has decreased by $260 million from the Budget forecast. This is $510 million lower than the First Quarter Ontario Finances' projection of a $250 million increase in Corporations Tax revenues in 2006–07. This reflects slower projected growth in pre-tax corporate profits in 2006 and higher-than-expected refunds in respect of 2005 corporate tax return filing.

Tobacco Tax revenue in 2006–07 is forecast to decrease by $80 million from the 2006 Ontario Budget forecast based on lower-than-projected revenue receipts during the first half of the fiscal year.

Revenues from the Employer Health Tax and Ontario Health Premium are forecast to decrease by $15 million and $10 million respectively as a result of projected softening of economic growth in 2006.

The forecast for Government of Canada transfers has increased by $456 million, representing Ontario's share of Government of Canada transfers to all provinces and territories under the federal trusts announced in the 2006 federal budget and confirmed by the recently released federal financial results for 2005–06.

The First Quarter Ontario Finances noted that the Sales and Rentals revenue forecast increased by $570 million, reflecting the expected gross amount of the Province's share of proceeds related to the Teranet Income Fund IPO announced on June 16, 2006. An additional $3 million was subsequently realized upon the sale of income fund units by the Province's designees. The update on proceeds from the Teranet IPO is discussed in greater detail in Annex II, *Ontario's Medium-term Fiscal Plan and Outlook.*

SUMMARY OF MEDIUM-TERM REVENUE CHANGES SINCE BUDGET ($ BILLIONS)

	Outlook		
	2006–07	2007–08	2008–09
Key Revenue Changes Since 2006 Budget			
Slower Economic Growth	(0.5)	(0.8)	(1.0)
Teranet IPO	0.6	–	–
Prior Years' Tax Return Processing	0.9	0.3	0.3
Trusts Announced in 2006 Federal Budget	0.5	0.5	0.2
Other	(0.1)	(0.2)	(0.3)
Total Revenue Changes	1.3	(0.3)	(0.8)

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance

Since the 2006 Ontario Budget, the economic growth outlook for 2006 to 2008 has softened, reflecting higher oil prices, a stronger Canadian dollar and a slower growth outlook for the U.S. economy. The negative revenue impact of slower economic growth is offset in 2006–07 by proceeds from the Teranet Income Fund IPO and higher revenues related to processing of prior years' tax returns. The revenue increase related to prior years is largely one-time in nature, with only a portion of the increase carrying forward over the medium term. Also contributing to higher revenues is Ontario's share of Government of Canada transfers to all provinces and territories under the trusts announced in the 2006 federal budget.

The Taxation Revenue forecast reflects an estimated $60 million revenue decrease by 2008–09, due to personal income tax changes, including a proposed enhanced dividend tax credit, paralleling proposed federal tax changes and improvements to Ontario Property and Sales Tax Credits. Also reflected in the forecast are projected lower Tobacco Tax revenues and the anticipated impact of the federal–provincial agreement to streamline the administration of Ontario's corporate tax system, which reduces Corporations Tax revenues by $35 million in 2008–09. The latter issue is discussed in detail in Annex IV, *Corporate Tax Harmonization.*

Medium-term Revenue Outlook

Medium-term Revenue Outlook ($ Billions)			
Revenue	2006–07	2007–08	2008–09
Taxation Revenue	61.6	63.5	66.1
Government of Canada	14.0	15.4	15.5
Income from Government Enterprises	3.9	4.1	4.3
Other Non-tax Revenue	7.5	7.0	7.3
Total Revenue	**87.0**	**90.0**	**93.2**

Note: Numbers may not add due to rounding.

Total revenue in 2008–09 is projected to be $93.2 billion, an increase of $6.2 billion over the level forecast for 2006–07. This represents an average annual growth rate of 3.5 per cent between 2006–07 and 2008–09.

Taxation revenue is forecast to increase by $4.6 billion between 2006–07 and 2008–09, with annual growth averaging 3.6 per cent. This is consistent with nominal GDP annual growth averaging 4.2 per cent from 2006 to 2008.

Federal payments to Ontario are forecast to increase by $1.4 billion between 2006–07 and 2008–09, with annual growth averaging 5.0 per cent. The forecast is based on current federal-provincial agreements, funding commitments, and formulas for major health and social transfers. The forecast includes $2.2 billion over three years in Canada–Ontario Agreement transfers and $1.1 billion over three years, representing Ontario's share of Government of Canada trusts.

Income from Government Enterprises is forecast to increase by $0.4 billion over the medium term.

Other Non-Tax revenue is forecast to decrease by $0.3 billion between 2006–07 and 2008–09. The decrease is due to the $0.6 billion one-time Sales and Rentals revenues in 2006–07 from the Teranet IPO. Adjusting for this, Other Non-Tax revenue increases by $0.3 billion between 2006–07 and 2008–09, representing an average annual growth rate of 2.2 per cent.

SECTION IV: POTENTIAL RISKS TO PROVINCIAL REVENUES

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues make up the largest category of Provincial revenue. Of the $87.0 billion in total revenues forecast for 2006–07, $61.6 billion, or about 71 per cent, is expected to come from taxation revenues. Three revenue sources within this category – Personal Income Tax, Retail Sales Tax and Corporations Tax – account for about 55 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of managing public finances.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. It should be cautioned that these estimates, while useful, are only guidelines and can vary depending on the composition and interaction of the potential risks.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
TOTAL REVENUES		
• Real GDP • GDP Deflator	1.6 per cent growth in 2006 1.4 per cent increase in 2006	$645 million revenue change for each percentage point change in real GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
• Canadian Interest Rates	4.0 per cent three-month treasury bill rate in 2006	Between $65 million and $325 million revenue change in the opposite direction for each percentage point change in interest rates.
• U.S. Real GDP	3.4 per cent growth in 2006	Between $195 million and $475 million revenue change for each percentage point change in U.S. real GDP growth.
• Canadian Dollar Exchange Rate	88.5 cents US in 2006	Between $25 million and $115 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Total Taxation Revenues		
• Revenue Base[1]	3.3 per cent growth in 2006–07	$590 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
• Nominal GDP	3.0 per cent growth in 2006	
Personal Income Tax Revenues		
• Revenue Base	5.8 per cent growth in 2006–07	
Key Economic Assumptions		
• Wages and Salaries	4.3 per cent growth in 2006	$240 million revenue change for each percentage point change in wages and salaries growth.
• Employment	1.4 per cent growth in 2006	
• Unincorporated Business Income	3.3 per cent growth in 2006	
Key Revenue Assumptions		
• Net Capital Gains Income	18 per cent decrease in 2006	$4 million revenue change for each percentage point change in net capital gains income growth.
• RRSP Deductions	6.0 per cent growth in 2006	$15 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
• 2005 Tax-Year Assessments[2]	$20.4 billion	$204 million revenue change for each percentage point change in 2005 Personal Income Tax assessments.[4]
• 2004 Tax-Year and Prior Year Assessments[2]	$1.3 billion	$13 million revenue change for each percentage point change in 2004 and Prior Year Personal Income Tax assessments.[4]
Retail Sales Tax Revenue		
• Revenue Base	4.0 per cent growth in 2006–07	
Includes:		
• Taxable Household Spending	3.3 per cent growth in 2006–07	
• Other Taxable Spending	4.8 per cent growth in 2006–07	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Key Economic Assumptions		
• Retail Sales	4.2 per cent growth in 2006	
• Nominal Consumption Expenditure	4.3 per cent growth in 2006	$90 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
• Revenue Base	0.3 per cent decline in 2006–07	
• Corporate Profits	1.0 per cent decline in 2006	$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
• 2005–06 Tax Assessment Refunds[3]	$1.3 billion payable in 2006–07	$13 million revenue change in the opposite direction for each percentage point change in 2005–06 refunds.[4]
• 2005–06 Tax Payments Upon Filing	$0.8 billion receivable in 2006–07	$8 million revenue change for each percentage point change in 2005–06 payments upon filing or assessment payments.[4]
• 2005–06 Tax Assessment Payments	$0.8 billion receivable in 2006–07	$8 million revenue change for each percentage point change in 2005–06 assessment payments.
Employer Health Tax Revenues		
• Revenue Base	4.1 per cent growth in 2006–07	
• Wages and Salaries	4.3 per cent growth in 2006	$35 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
• Revenue Base	4.7 per cent growth in 2006–07	
• Personal Income	4.6 per cent growth in 2006	$25 million revenue change for each percentage point change in personal income growth.
• 2005 Tax Year Assessments	$2.3 billion	$23 million revenue change for each percentage point change in Ontario Health Premium Assessments.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Gasoline Tax Revenues		
• Revenue Base	0.4 per cent growth in 2006–07	
• Gasoline Pump Prices	95.0 cents per litre in 2006	$2 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
• Revenue Base	1.8 per cent growth in 2006–07	
• Real GDP	1.6 per cent growth in 2006	$13 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
• Revenue Base	3.0 per cent decline in 2006–07	
• Housing Resales	2.0 per cent decrease in 2006	$10 million revenue change for each percentage point change in both the number and prices of housing resales.
• Resale Prices	5.9 per cent growth in 2006	
Health and Social Transfers		
• Canada-wide Revenue Base	$28.6 billion in 2006–07	
• Ontario Revenue Share	37.7 per cent in 2006–07	
• Ontario Population Share	38.9 per cent in 2006–07	$44 million revenue change for each tenth of a percentage point change in population share.
• Ontario Basic Federal PIT Share	43.9 per cent in 2006–07	$6 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.

[1] Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

[2] Ontario 2005 Personal Income Tax (PIT) is a forecast estimate because 2005 tax returns are currently being assessed by the Canada Revenue Agency.

[3] Corporations Tax refunds arising during 2005–06 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2005–06 fiscal year are still being assessed by the Tax Revenue Division of the Ontario Ministry of Finance.

[4] Now that 2005–06 Public Accounts of Ontario have been finalized, any change in 2005 PIT assessments or 2005–06 Corporations Tax revenues will have a dual effect on 2006–07 revenues through: a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2005–06 Public Accounts.

ANNEX II

Ontario's Medium-term Fiscal Plan and Outlook

INTRODUCTION

In 2003–04, Ontario's deficit was $5.5 billion. In addition to the fiscal deficit, the province had significant deficits in health care, education and infrastructure. Through a prudent and disciplined fiscal approach, the government has made progress on restoring Ontario's financial health, while making historic, long-term investments in health, education, infrastructure and a strong economy.

The 2006 Budget outlined a medium-term fiscal plan that would return the Province to a sustainable fiscal balance by 2008–09. However, record-high oil prices, the strong Canadian dollar and a weaker outlook for growth in the United States — Ontario's largest trading partner — have led to slower projected economic growth than anticipated in the 2006 Budget. As a result, while the 2006–07 deficit outlook of $1.9 billion remains on track, the medium-term fiscal outlook includes deficits of $2.2 billion in 2007–08 and $1.0 billion in 2008–09 — reflecting the impact of more moderate economic growth on Ontario's revenue outlook. The Province will post a $0.5 billion surplus if the reserve is not required in 2008–09.

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances, including keeping program spending growth under control. This approach, in addition to ongoing strategic investments in health care, education, infrastructure and key economic sectors, will continue to strengthen the economy and ensure that the province is well positioned to manage both the challenges and opportunities ahead.

This Annex provides an overview of the following:

- Section I: Ontario's Medium-term Fiscal Plan and Outlook
- Section II: 2006–07 Second-quarter Fiscal Update

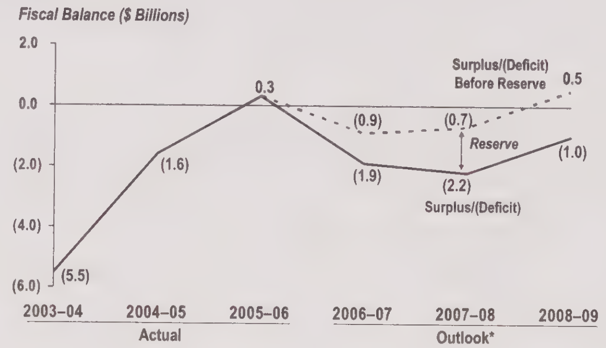
Additional information can be found in Annex VII, *Details of Ontario's Finances.*

Section I: Ontario's Medium-term Fiscal Plan and Outlook

The inherited deficit in 2003–04 of $5.5 billion was the result of a prolonged period when annual growth in Provincial spending exceeded annual growth in Provincial revenue. By introducing a responsible and disciplined approach to fiscal planning, the government has made progress towards restoring the financial health of the Province by exceeding its planned deficit targets in each fiscal year since 2003–04. In 2004–05, the deficit was reduced to $1.6 billion, and the Consolidated Financial Statements for 2005–06 indicated that the Province's fiscal performance, projected to be a $1.4 billion deficit at the time of the 2006 Budget, had improved to a modest surplus of $0.3 billion.

Higher revenues, combined with lower interest on debt expenses, have given the government the flexibility to invest further in key priority areas and still improve upon the 2006 Budget deficit projection of $2.4 billion for 2006–07. In fact, the Province has already reported an improvement of $0.4 billion in the deficit outlook for 2006–07 from the 2006 Budget forecast.

Ontario's Medium-term Fiscal Plan



* Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance.

While the 2006–07 deficit target remains unchanged from the $1.9 billion deficit projection outlined in the First Quarter Ontario Finances, or $0.9 billion if the reserve is not required, the medium-term economic growth outlook has softened, reflecting record-high oil prices, a stronger Canadian dollar and a slower projected growth outlook for the U.S. economy. The medium-term fiscal outlook, which includes reserves of $1.5 billion in 2007–08 and 2008–09, is now projected to be a deficit of $2.2 billion in 2007–08 and $1.0 billion in 2008–09, reflecting the impact of the slower economic growth on Provincial revenue. This represents a change of $0.7 billion in 2007–08 and $1.0 billion in 2008–09 from the fiscal targets presented in the 2006 Budget. The Province will post a deficit of $0.7 billion if the reserve is not required in 2007–08 and a $0.5 billion surplus if the reserve is not required in 2008–09. The government is committed to eliminating the fiscal and structural deficits through prudent fiscal management, including keeping expense growth under control.

KEY ELEMENTS OF ONTARIO'S MEDIUM-TERM FISCAL PLAN

The key elements of the government's medium-term fiscal plan, which will ensure an ongoing commitment to a disciplined and prudent approach to fiscal planning, include:

- promoting a strong economy by investing in Ontario's infrastructure, health care, education, and postsecondary education and training
- making disciplined decisions that hold the annual rate of growth in total spending to 2.7 per cent on average over the medium term — significantly less than the 3.5 per cent average annual rate of growth in total revenue
- working constructively with the federal government towards a set of principled and sustainable federal–provincial fiscal arrangements
- responsibly maintaining a cautious and prudent fiscal planning process, including an annual reserve
- forming the Ontario Economic Forecasting Council, which will meet with the Minister of Finance to discuss macroeconomic projections
- identifying $750 million in program review savings by 2007–08.

MEDIUM-TERM FISCAL OUTLOOK

While the 2006–07 fiscal outlook is unchanged from the $1.9 billion deficit forecast in the First Quarter Ontario Finances, the medium-term fiscal outlook now projects a deficit of $2.2 billion in 2007–08 and $1.0 billion in 2008–09, including the reserve. This represents a change of $0.7 billion in 2007–08 and $1.0 billion in 2008–09 from the fiscal targets presented in the 2006 Budget. The Province will post a deficit of $0.7 billion if the reserve is not required in 2007–08 and a $0.5 billion surplus if the reserve is not required in 2008–09.

As per the *Fiscal Transparency and Accountability Act, 2004,* the following table provides details of projected revenue and expense from 2006–07 through to the 2008–09 fiscal year. Further details are included in Annex VII, *Details of Ontario's Finances.*

MEDIUM-TERM FISCAL PLAN AND OUTLOOK ($ BILLIONS)

	Actual	Outlook[1]		
	2005–06	2006–07	2007–08	2008–09
Revenue				
Taxation Revenue	59.9	61.6	63.5	66.1
Government of Canada	13.3	14.0	15.4	15.5
Income from Government Enterprises	4.3	3.9	4.1	4.3
Other Non-Tax Revenue	6.7	7.5	7.0	7.3
Total Revenue	84.2	87.0	90.0	93.2
Expense				
Programs				
Health Sector	32.8	35.5	37.5	38.9
Education Sector[2]	11.6	12.1	12.6	12.7
Postsecondary Education and Training Sector	4.7	5.2	5.9	6.0
Children's and Social Services Sector	10.1	10.3	10.5	10.6
Justice Sector	3.1	3.2	3.2	3.2
Other Programs	12.6	12.4	11.6	11.6
Total Programs	74.9	78.8	81.2	83.1
Interest on Debt	9.0	9.2	9.5	9.6
Total Expense	83.9	88.0	90.8	92.7
Surplus/(Deficit) Before Reserve	0.3	(0.9)	(0.7)	0.5
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	0.3	(1.9)	(2.2)	(1.0)

[1] Second-quarter fiscal forecast as at September 30, 2006.
[2] Education sector includes Teachers' Pension Plan (TPP). Excluding TPP, total education sector expense is $11.3 billion in 2005–06, and projected at $11.7 billion in 2006–07, $12.1 billion in 2007–08 and $12.4 billion in 2008–09.
Note: Numbers may not add due to rounding.

Medium-term Revenue Outlook

The revenue forecast reflects developments to date and the current economic outlook, but there are risks to the forecast that the Province will continue to monitor over the coming months. Recent signs of weakness in corporate profits give rise to concerns for historically volatile Corporations Tax revenues. Uncertainty remains regarding the 2005 Canada–Ontario Agreement, posing a challenge to developing the revenue outlook and fiscal plan. Ontario does not accept the federal position that the unanticipated measures announced by the federal government in its 2006 budget count towards the Agreement. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

Total revenue in 2008–09 is projected to be $93.2 billion, an increase of $6.2 billion over the level forecast for 2006–07. This represents an average annual growth rate of 3.5 per cent between 2006–07 and 2008–09.

Taxation revenue is forecast to increase by $4.6 billion between 2006–07 and 2008–09, with annual growth averaging 3.6 per cent. This is consistent with nominal GDP annual growth averaging 4.2 per cent from 2006 to 2008.

Federal payments to Ontario are forecast to increase by $1.4 billion between 2006–07 and 2008–09, with annual growth averaging 5.0 per cent. The forecast is based on current federal-provincial agreements, funding commitments, and formulas for major health and social transfers. The forecast includes $2.2 billion over three years in Canada–Ontario Agreement transfers and $1.1 billion over three years, representing Ontario's share of Government of Canada trusts.

Income from Government Enterprises is forecast to increase by $0.4 billion over the medium term.

Other Non-Tax revenue is forecast to decrease by $0.3 billion between 2006–07 and 2008–09. The decrease is due to the $0.6 billion one-time Sales and Rentals revenues in 2006–07 from the Teranet IPO. Adjusting for this, Other Non-Tax revenue increases by $0.3 billion between 2006–07 and 2008–09, representing an average annual growth rate of 2.2 per cent.

Medium-term Expense Outlook

Over the medium term, total expense will rise from $88.0 billion in 2006–07 to $92.7 billion in 2008–09 — an increase of $4.7 billion. To put the Province's finances on track towards a sustainable fiscal balance, annual average growth in spending over the medium term will be held to less than the annual average rate of growth in revenue. Annual growth in total expense is expected to average 2.7 per cent over this period, which is less than the 3.5 per cent average annual growth in revenue forecast over the medium term.

- Total **health sector** spending, including the impact of consolidating the Province's 156 hospitals (including four specialty psychiatric hospitals), will grow by $2.7 billion to $35.5 billion in 2006–07. Between 2005–06 and 2008–09, total health spending will increase by $6.1 billion.

- Total **education sector** spending, including the impact of consolidating the Province's 103 school boards and authorities, will grow by $0.5 billion to $12.1 billion in 2006–07, increasing to $12.7 billion by 2008–09. Excluding Teachers' Pension Plan expense, education sector spending will grow by $0.4 billion to $11.7 billion in 2006–07, increasing to $12.4 billion by 2008–09.

- Total **postsecondary education and training** sector spending, including the impact of consolidating the Province's 24 colleges of applied arts and technology, will grow by $0.5 billion to $5.2 billion in 2006–07, increasing to $6.0 billion by 2008–09.

- **Children's and Social Services sector** funding to support vulnerable adults, families and at-risk youth will grow by an additional $0.3 billion in 2006–07 to $10.3 billion, rising to $10.6 billion by 2008–09.

- **Justice sector** spending will grow by $0.1 billion to $3.2 billion in 2006–07 and remain at that level throughout the medium term.

- **Other Programs** spending will total $12.4 billion in 2006–07, but will decrease to $11.6 billion in 2007–08 and 2008–09, mainly reflecting one-time investments in 2006–07 such as those related to the Teranet IPO proceeds, the Ontario Home Electricity Relief program, and additional forest fire fighting costs.

- **Interest on debt expense** is forecast to grow by $0.4 billion between 2006–07 and 2008–09, reflecting the government's deficit targets and interest rates that are forecast to increase from historically low levels. In 2006–07, interest on debt costs will amount to about 11 per cent of total Provincial revenue and will fall to about 10 per cent in 2008–09. This represents an improvement over 2003–04, when interest on debt expense represented 14 per cent of total Provincial revenue.

FISCAL PRUDENCE

The government is applying a disciplined approach to balancing strategic investments in key priority areas with a plan to achieve a sustainable fiscal balance. The government's medium-term fiscal plan also includes prudence in recognition of the risks that could materialize as a result of changes in the economic and fiscal outlook.

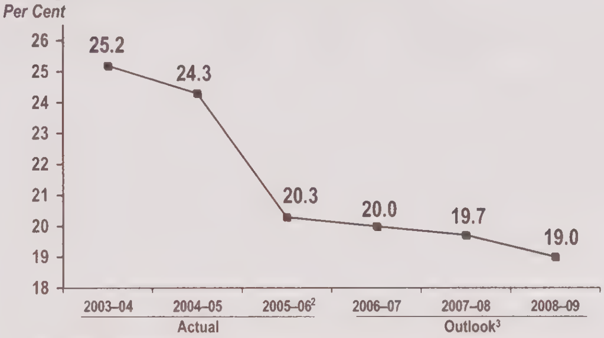
Fiscal prudence is particularly important in the current context, where the economic outlook has softened due to record-high oil prices, a strong Canadian dollar and a slower projected growth outlook for the U.S. economy. The government's medium-term fiscal plan continues to include reserves of $1.0 billion in 2006–07 and $1.5 billion in 2007–08 and 2008–09 to protect the fiscal plan against the impact of external adverse developments. The 2007–08 and 2008–09 reserves are $0.5 billion higher than the $1.0 billion reserve in 2006–07 to better reflect the risks and uncertain nature of medium-term fiscal projections.

Consistent with the principles of increased fiscal transparency and accountability, the government provides quarterly fiscal and economic updates using the best available information.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

The government's medium-term fiscal plan includes a commitment to maintain a prudent level of Provincial debt relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term to ensure that future generations are not burdened with an unsustainable debt load.

Projected Debt-to-GDP Ratio[1]



[1] Debt is defined as accumulated deficit.
[2] The substantial decline in 2005–06 is primarily due to a one-time reduction in the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities.
[3] Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance.

As per the *Fiscal Transparency and Accountability Act, 2004*, Provincial debt is defined as accumulated deficit, which is the sum of all past Provincial surpluses and deficits.

Consistent with the medium-term fiscal outlook provided in this update, the Province's debt-to-GDP ratio is projected to decline from 25.2 per cent in 2003–04 to 20.0 per cent in 2006–07 and 19.0 per cent by 2008–09.

Key Changes Since the 2006 Ontario Budget

The government's medium-term fiscal outlook has been updated to reflect revenue and expense changes since the Budget, including updates to the Province's interest on debt forecast. Further details are included in Annex I, *Ontario's Economic and Revenue Outlook*, and Annex VII, *Details of Ontario's Finances.*

In 2005–06, the Province recorded a modest surplus of $298 million, which is an improvement from the interim deficit projection of $1.4 billion reported in the 2006 Budget. This modest surplus, confirmed by the Auditor General in the 2005–06 Consolidated Financial Statements, can be primarily attributed to higher-than-expected tax revenues and lower-than-expected net expenses of hospitals, colleges and school boards. Higher revenues in 2006–07, combined with lower interest on debt expense, have given the government the flexibility to invest further in key priority areas and still improve upon the 2006 Budget deficit projection of $2.4 billion for 2006–07. However, the deficit is now projected to be $2.2 billion in 2007–08 and $1.0 billion in 2008–09, including the reserve, reflecting the medium-term impact of slower economic growth on Provincial revenues. The Province will post a $0.5 billion surplus if the reserve is not required in 2008–09.

The following table provides an overview of the key changes to the medium-term revenue and expense outlooks and the reserve since the release of the 2006 Budget. Additional details on key changes to the 2006–07 fiscal outlook since the 2006 Budget are provided in Section II of this Annex.

Impact of Key Changes to the Medium-term Deficit Targets ($ Billions)

	Outlook		
	2006–07	2007–08	2008–09
Surplus/(Deficit) as per 2006 Budget	(2.4)	(1.5)	0.0
Total Revenue Changes Since 2006 Budget	1.3	(0.3)	(0.8)
Key Expense Changes Since 2006 Budget:			
Additional Funding to Reduce Health Wait Times	0.1	0.2	0.2
Investment of Teranet IPO Proceeds into Priorities (see Section II)	0.5	–	–
Spending Related to Federal Trusts	0.5	0.5	0.2
Other Expense (Net), Including Interest on Debt Savings	(0.2)	(0.2)	(0.1)
Total Expense Changes Since 2006 Budget	0.9	0.5	0.3
Total Changes Since 2006 Budget	0.4	(0.7)	(1.0)
Surplus/(Deficit)	(1.9)	(2.2)	(1.0)
Reserve	1.0	1.5	1.5
Surplus/(Deficit) Before Reserve	(0.9)	(0.7)	0.5

Note: Numbers may not add due to rounding.

Details of Key Revenue Changes

Since the 2006 Ontario Budget, the economic growth outlook for 2006 to 2008 has softened, reflecting higher oil prices, a stronger Canadian dollar and a slower growth outlook for the U.S. economy. The negative revenue impact of slower economic growth is offset in 2006–07 by proceeds from the Teranet Income Fund IPO and higher revenues related to processing of prior years' tax returns. The revenue increase related to prior years is largely one-time in nature, with only a portion of the increase carrying forward over the medium term. Also contributing to higher revenues is Ontario's share of Government of Canada transfers to all provinces and territories under the trusts announced in the 2006 federal budget.

All other medium-term revenue changes lower the revenue outlook over the medium term. The medium-term revenue outlook changes are discussed in greater detail in Annex I, *Ontario's Economic and Revenue Outlook*.

Update on the Proceeds from the Initial Public Offering (IPO) of Teranet

The First Quarter Ontario Finances reported that an estimated $570 million was expected from the Teranet IPO proceeds, of which $54 million was devoted to service improvements and system enhancements of Teranet.

The amount included $410 million in cash received from the IPO on June 16, 2006. The $160 million cash component of the transaction received by the Province in a deferred payment was dependent upon the market price of the income fund units at the time the Province's designees sold their income fund units and paid the Province the deferred payment. In September, the Province's designees sold their income fund units and paid the Province $163 million, resulting in an additional $3 million in revenue.

The proceeds from the Teranet IPO have been added to the Ministry of Finance Operating Contingency Fund and the government will continue to determine priority areas in which to invest the proceeds. Details on priority areas where the government is proposing to invest the Teranet IPO proceeds can be found in Section II of this Annex.

Details of Key Expense Changes

Major changes to the medium-term expense outlook since the 2006 Budget include:

- increases in total **health sector** expense by $0.1 billion in 2006–07, $0.2 billion in 2007–08 and $0.2 billion onwards, to reflect enhancements to the government's Wait Times Strategy

- an amount of $0.5 billion allocated to the Contingency Fund until priority projects to be funded by the **proceeds from the Teranet Income Fund IPO** in 2006–07 are determined; details on key investments to date can be found in Section II of this Annex

- spending related to **the Government of Canada transfers under the federal trusts,** which amount to $0.5 billion in 2006–07 and 2007–08, and $0.2 billion in 2008–09, pending satisfactory resolution of issues related to the Canada–Ontario Agreement

- a net decrease in other expenses by $0.2 billion in 2006–07 and 2007–08, and $0.1 billion in 2008–09, mainly due to the impact of **lower interest on debt costs** arising from continued cost-effective debt management and lower interest rates than were forecast at the time of the 2006 Budget.

Modernizing Government Update

The government's modernization plan contains three objectives:

- **program review** – achieving savings of $750 million by 2007–08 from more cost-effective programs

- **efficient government** – delivering higher-quality services in an efficient and effective manner

- **controlling long-term costs** – improving health care, education and other key services in a way that is affordable and fiscally sustainable.

Achievement of Savings

Since taking office, the government has undertaken a comprehensive review to ensure that key programs and services are being delivered in the most cost-effective way possible and to secure their long-term viability. A critical component of the fiscal plan has been the program review target of $750 million to be achieved by 2007–08.

As indicated in the 2006 Budget, $407 million in savings had been found — $350 million in direct program savings and a further $57 million through more efficient management of the Province's revenues. To keep pace with the rising expectations of citizens for high-quality, cost-effective public services, the government is modernizing and improving programs and services both internally and externally. Examples include:

- decreased procurement costs resulting from a more streamlined purchasing process, vendor rebates and 33 new vendors of record
- savings generated by changes in the application of information technology services and products, including the consolidation of key infrastructure services across the Ontario Public Service (e.g., service/datacentre consolidation and common computer applications and services)
- more effective management of government revenues through improved collection of the government's accounts receivable
- reduced ministry accommodation costs and more energy-efficient government buildings — Ontario is leading by example in reducing energy consumption
- improved and more cost-effective service delivery to both citizens and business customers through the implementation of ServiceOntario.

Since the 2005 Budget, ministries across the government have reviewed their baseline expenditures for efficiencies to ensure all expenditures are aligned with the government's priorities. As a result of the review, combined with the work underway to modernize government, the remaining $343 million of the $750 million program review target has been realized and exceeded. All government ministries have realized sufficient savings from program review to absorb almost $400 million in salary and wage and other inflationary pressures. Total savings from modernization equal $806 million annually.

The 2006 Budget confirmed that the government has continued to move forward on the modernization initiatives. For example, the new Securities Transfer Act, coming into force January 2007, creates the first fully harmonized provincial commercial law in Canada. The modernization of Ontario's commercial law framework will help businesses compete in the global economy and facilitate economic growth.

The continued work to modernize government and review all expenditures demonstrates Ontario's commitment to achieving efficiency, effectiveness and economy throughout government.

In November 2005, the first money-back service guarantee was implemented for the Online Birth Certificate Service. As of September 2006, of the 250,189 eligible applications received, 80 refunds have been issued to applicants who did not receive their birth certificate within 15 business days.

Building on the success of the Online Birth Certificate service guarantee, an Online Marriage and Death Certificates Application money-back guarantee will be launched in January 2007, enabling customers quick and convenient access to these vital documents.

The government is also working with broader public-sector (BPS) partners to manage the rate of growth in spending, while improving their respective service levels. OntarioBuys, a Ministry of Finance program, is working with BPS partners to improve their supply chain functions. For instance, an e-supply chain project involving 46 hospital facilities across the province is already yielding significant annual savings available for front-line services. The BPS is demonstrating keen interest in this program and new projects are being initiated. Existing OntarioBuys projects in the health and education sectors, once implemented, will yield demonstrable savings and improve service quality.

The program review savings target was $750 million and has been exceeded. The following table presents total achieved program review savings.

Total Program Review Savings ($ Millions)	2007–08
Previously Reported Savings ($407 Million)	
Supply Chain and Transactional Services	200
Information and Information Technology	100
Accommodation Savings Review	50
Revenue Savings	57
Subtotal	407
Remaining Savings/Efficiencies ($399 Million)	
Salary and Wage Pressures Absorbed	366
Ministry Efficiencies – Absorbing Inflationary Costs	18
Central Agency Review/Integration	15
Subtotal	399
Total	806

Section II: 2006–07 Second-quarter Fiscal Update

2006–07 Fiscal Summary

The 2006 Budget Plan projected a deficit of $2,350 million for 2006–07. As at September 30, 2006, a deficit of $1,949 million is projected for 2006–07, an in-year improvement of $401 million from the deficit projected in the 2006 Budget. Additional information can be found in Annex VII, *Details of Ontario's Finances.*

2006–07 Fiscal Outlook — In-year Change ($ Millions)

	Budget Plan 2006–07	Outlook[1] 2006–07	In-Year Change
Revenue	85,730	87,044	1,314
Expense			
Programs	77,651	78,789	1,138
Interest on Debt	9,429	9,204	(225)
Total Expense	87,080	87,993	913
Surplus/(Deficit) Before Reserve	(1,350)	(949)	401
Reserve	1,000	1,000	–
Surplus/(Deficit)	(2,350)	(1,949)	401

[1] Second-quarter fiscal forecast as at September 30, 2006.

Total revenue in 2006–07 is currently projected to be $87,044 million, an increase of $1,314 million from the 2006 Budget Plan. In-year revenue changes are discussed in greater detail in Annex I, *Ontario's Economic and Revenue Outlook.*

Total expense is projected to increase to $87,993 million, up a net $913 million from the 2006 Budget Plan and up $494 million from the outlook presented in the First Quarter Ontario Finances. This is mainly due to an in-year increase in the Operating Contingency Fund of $456 million related to the federal trusts and the $519 million in proceeds from the Teranet IPO, offset by interest on debt savings of $225 million.

The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at $1.0 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit.

The 2006–07 fiscal outlook continues to include funding from the 2005 Canada–Ontario Agreement. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

Summary of In-Year Expense Changes Since Budget ($ Millions)		In-Year Change
Expense Changes This Quarter:[1]		
Ministry of Finance — Increase to Operating Contingency Fund for the federal trusts		456
Ministry of Natural Resources — Additional forest fire fighting costs		124
Ministry of Health and Long-Term Care[2] — Wait Times Strategy		109
Ministry of Community and Social Services — Ontario Disability Support Program		25
Ministry of Children and Youth Services — Youth Challenge Fund		15
Ministry of Education — TVOntario Strategic Plan implementation		8
Ministry of Public Infrastructure Renewal — Caledonia — Purchase of Douglas Creek Estates		6
Ministry of Finance — Increase to Operating Contingency Fund for additional proceeds from the Teranet IPO		3
Interest on Debt — Savings		(74)
Sub-Total		672
Proposed Investments Related to Teranet IPO Proceeds		
Ministry of Transportation — Toronto Transit Vehicle Assistance	150	
Ministry of Agriculture, Food and Rural Affairs — Assistance to Farmers	101	
Ministry of Agriculture, Food and Rural Affairs — Rural Infrastructure	70	
Ministry of Agriculture, Food and Rural Affairs — Rural Development	5	
Total Proposed Investments Related to Teranet IPO Proceeds		326
Total Expense Changes, Including Investments Related to Teranet IPO Proceeds		998
Ministry of Finance — Operating Contingency Fund offsets		(498)
Ministry of Public Infrastructure Renewal — Capital Contingency Fund offsets		(6)
Net Expense Changes This Quarter		494
Net Expense Changes Reported in First Quarter Ontario Finances		419
Total Expense Changes Since Budget		913

[1] Second-quarter fiscal forecast as at September 30, 2006.
[2] Includes amounts allocated to hospitals' net expense for Wait Times Strategy.

The following is a detailed explanation of the in-year changes this quarter.

- The Province proposes that the Operating Contingency Fund under the **Ministry of Finance** be increased by $456 million in 2006–07 to reflect spending related to the federal trusts, pending satisfactory resolution of issues related to the Canada–Ontario Agreement.

- An in-year increase of $124 million in the **Ministry of Natural Resources** for additional personnel and equipment resources is required to support forest fire fighting, due to the above-average number of fires this season, fully offset from the Operating Contingency Fund.

- **Health sector** expense increased by $109 million, reflecting enhancements to the government's Wait Times Strategy, including about $50 million for 127,200 additional key procedures (hip and knee replacements, cataract surgeries, MRI exams and CT scans) and about $59 million to improve supporting programs and services.

- An increase of $25 million in the **Ministry of Community and Social Services** is a result of the elimination of the four-month limit on retroactive payments for the Ontario Disability Support Program, fully offset from the Operating Contingency Fund.

- An increase of $15 million in the **Ministry of Children and Youth Services** is supporting the Youth Challenge Fund to provide prevention and early intervention initiatives for youth at risk, fully offset from the Operating Contingency Fund.

- An in-year increase of $8 million in the **Ministry of Education** is supporting the modernization of TVOntario through its conversion to digital broadcasting, fully offset from the Operating Contingency Fund.

- The **Ministry of Public Infrastructure Renewal** has paid $22 million to acquire the Douglas Creek Estate Lands. The net impact on the ministry's allocation is an increase of $6 million, fully offset from the Capital Contingency Fund. As part of its broader response and strategy to provide support and assistance to individuals and businesses of Caledonia, the government has provided $25 million this fiscal year, of which $2 million was reported in the First Quarter Ontario Finances for business assistance.

- An increase of $3 million in the **Ministry of Finance** Operating Contingency Fund resulting from the additional revenue from the Teranet IPO when the Province's designees sold their income fund units and paid the Province.

- Savings of $74 million in **Interest on Debt** costs for 2006–07 are mainly due to cost-effective debt management and lower-than-forecast long-term interest rates.

The following provides details of the government's investments to date related to the Teranet IPO proceeds in the Operating Contingency Fund.

- A $150 million increase in the **Ministry of Transportation** is for the contribution to the City of Toronto to help fund the replacement and refurbishment of Toronto Transit Commission (TTC) vehicles, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund. This contribution recognizes the unique funding requirements of the TTC — Canada's largest municipal transit agency.

- There is an increase in the **Ministry of Agriculture, Food and Rural Affairs** of $96 million in assistance to farmers to match the federal Canadian Agricultural Income Stabilization Inventory Transition Initiative, and $5 million to support horticulture producers through the Self-Directed Risk Management Program, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

- An investment of $70 million in the **Ministry of Agriculture, Food and Rural Affairs** is for rural communities to support projects such as water and wastewater infrastructure, and roads and bridges, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

- An increase of $5 million in the **Ministry of Agriculture, Food and Rural Affairs** is assisting rural communities with economic development projects, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

ANNEX III

Fairness for All Canadians

Introduction

For over 15 years, successive Ontario governments have urged the federal government to address the systemic unfairness towards the people of Ontario in federal programs and transfers. In 2004, the McGuinty government documented the inequities in greater detail than ever before and its call for fairness received support from business, community, sectoral and municipal leaders from all regions of Ontario.

The Government of Ontario and the people of this province believe that equitable treatment is a fundamental principle that must serve as the underpinning of our fiscal arrangements. Outside of the country's formal Equalization program, federal transfers and programs of general application should treat all Canadians equally. Federal cash transfers to provinces and territories that support these programs should be allocated on an equal per-capita basis.

This unfairness represents a real drain on the Ontario economy and a significant barrier to progress for the people of this province. With fair support from the federal government, Ontario could do even more to strengthen the economy and improve vital public services like health care and education.

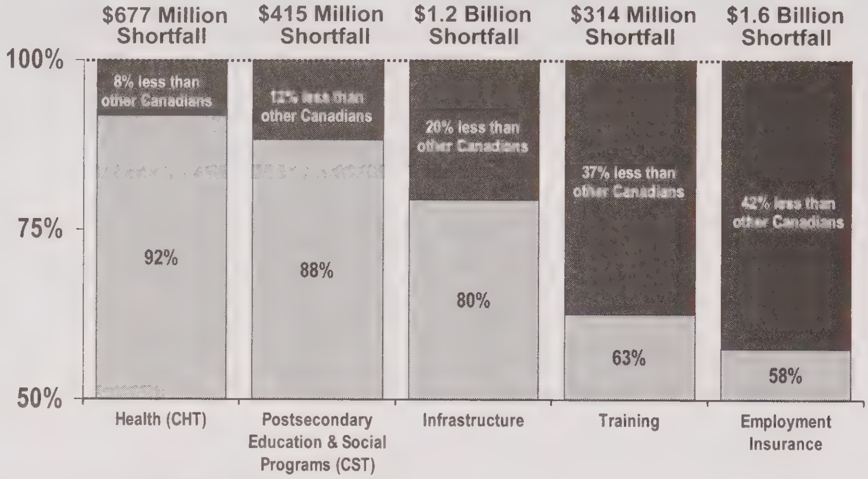
More and more, studies are supporting what Ontario has been saying: that outside of the Equalization program itself, all Canadians deserve the same level of support from their national government for their public services. Even the federal government's own study, the O'Brien Report, agrees that backdoor equalization with respect to health and social transfers needs to be addressed. All Canadians are equal, and the federal government should invest fairly in the future prosperity of all Canadians and all regions.

Ontarians Do Not Receive Fair Treatment

The Ontario Government recognizes the importance of modern and efficient infrastructure to support economic growth. That's why the 2006 Ontario Budget included a $1.2 billion investment in the Province's public transit systems, municipal roads and bridges. This investment includes $670 million through the Move Ontario Trust to enable the extension of the Toronto subway to Vaughan, and $167 million to enable expansion of public transit in Mississauga, Brampton and York Region. The initiative builds on the provision of two cents per litre of gas tax revenues to municipalities in support of public transit, and the government's ReNew Ontario plan to invest more than $30 billion over five years in health care, education, water and wastewater, justice, transportation and transit infrastructure.

Ontarians Do Not Receive Fair Treatment[1]

Per-Capita Funding for Ontarians Compared to the Rest of Canada



Average Per-Capita Funding in the Rest of Canada = 100%
Source: Ontario Ministry of Finance, Statistics Canada.

The federal government is a necessary partner in the Toronto–York subway extension, the North America Gateway and other projects of national strategic significance, and must distribute infrastructure funding fairly over the long term. Under the terms of the existing infrastructure programs, on a per-capita basis, Ontario has only received 80 per cent of the funding made available to the rest of Canada over the terms of those agreements. Over the life of the existing federal infrastructure programs, this shortfall will add up to $1.2 billion.

At the same time, the federal government must address the inequities in how it distributes the Canada Health Transfer (CHT), which supports Ontario's hospitals and health care providers, and the Canada Social Transfer (CST), which supports colleges, universities and social programs. Federal support for health care in Ontario is only 92 per cent of the average support given to Equalization-receiving provinces.[2] This means Ontario will receive $53 less per person — an annual shortfall totalling $677 million. Federal transfers to support Ontario's postsecondary education sector and social programs are only 88 per cent of the average support given to Equalization-receiving provinces. This means Ontario will receive $33 less per person — an annual shortfall totalling $415 million.

Federal funding for labour market training in Ontario is also distributed inequitably. Federal support for training and employment services per unemployed person in Ontario is only 63 per cent of the average funding per unemployed person provided to Canadians in other provinces. Ontarians would benefit by $314 million annually if they received the same funding for training as other Canadians.

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1 CHT and CST figures are for the 2006–07 fiscal year and the "rest of Canada" refers to Equalization-receiving provinces; figures for infrastructure refer to funding over the terms of existing federal infrastructure programs; figures for training are for 2004 and refer to per unemployed person, and "rest of Canada" refers to other provinces only, not territories; EI regular benefits figures are for 2005 and refer to per unemployed person, and "rest of Canada" refers to other provinces only, not territories.

2 All provinces except Ontario and Alberta receive Equalization. Saskatchewan receives more CHT and CST cash per capita than the other seven Equalization-receiving provinces.

Ontarians also receive less federal Employment Insurance (EI) regular benefits per unemployed person than unemployed persons elsewhere in Canada. EI regular benefits for unemployed Ontarians are only 58 per cent of the average for unemployed persons in the rest of Canada. Ontarians would benefit by $1.6 billion annually if they received the same level of EI benefits as other Canadians.

Canada–Ontario Agreement

In 2005, the Canadian and Ontario governments entered into a historic agreement that finally addressed some of Ontario's concerns about fairness. Progress was made in a number of areas, including funding to support Ontario workers and immigrants at levels comparable to that of other provinces.

The Canada–Ontario Agreement, although historic and a significant victory for the people of Ontario, represented just a first step towards addressing Ontario's fairness issues. Regrettably, it has not yet been honoured by the new federal government.

The new federal government made an unequivocal commitment to honour that Agreement, recognizing that it was in the interests of all Ontarians and all Canadians to invest in a fair way in Ontario's prosperity.

Letter from Stephen Harper to Dalton McGuinty, January 18, 2006

Dear Premier McGuinty,

It was a pleasure to speak with you earlier this week.

When we met in my office in May 2005, no agreement had been finalized between yourself and the Prime Minister. We did reach an understanding that **I would be amenable to supporting a fiscal imbalance agreement reached between Ontario and Canada.***

Our platform released last week does not provide for the last two years of this agreement as that would put us beyond the term of the current Ontario government. However, given your strong commitment to the terms of the current agreement, **I have no difficulty in accommodating your request**.* This means **we will be fully funding this agreement*** through the 2009–10 and 2010–11 fiscal years, a commitment which is **clearly within the fiscal flexibility of our plans.***

I have attached the spreadsheet which sets out the details of the funding of that agreement in order to avoid any confusion.

Sincerely,

Hon. Stephen Harper, P.C., M.P.

* Emphasis added.

Prime Minister Harper's Commitment to the Canada–Ontario Agreement ($ Millions)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	Total
Higher Education	400	–	350	400	400	400	1,950
Housing and Infrastructure	150	150	100	100	100	–	600
Cities	149	149	–	–	–	–	298
Labour Market Development and Immigration	80	300	400	560	634	634	2,608
Climate Change	–	40	140	158	200	–	538
Corporate Tax Collection and Meat Inspection	10	80	350	250	100	100	890
Total	789	719	1,340	1,468	1,434	1,134	6,884

Based on the specific, firm, written commitment to the Canada–Ontario Agreement, set out in the Honourable Stephen Harper's letter to Premier Dalton McGuinty on January 18, 2006, Ontario built these revenues and corresponding expenditures into its March 2006 Budget medium-term fiscal plan.

Revenue from 2005 Canada–Ontario Agreement Included in Ontario's Medium-term Fiscal Plan ($ Millions)

	2006–07	2007–08	2008–09	Three-Year Total
Immigration[1]	2	2	2	6
Labour Market Partnership	93	108	155	356
Corporate Tax Collection	–	250	150	400
Higher Education	–	350	400	750
Housing	150	–	–	150
Infrastructure	–	100	100	200
Climate Change	40	140	158	338
Total Included in Fiscal Plan	285	950	965	2,200

[1] Annual funding to support the development of an immigration portal. Under the Canada–Ontario Agreement, $320 million annually by 2009–10 in newcomer services will be delivered to Ontarians by the federal government.

Uncertainty remains regarding the Agreement resulting from the unanticipated announcement in the 2006 federal budget of the intention to include several trusts, certain tax measures and "further amounts allocated" as counting towards the Agreement.

Furthermore, the federal government made unexpected changes to the form and timing of revenues to flow to Ontario through the Agreement. Finally, Ontario awaits the balance of the funds committed under the Agreement, including outstanding 2005–06 amounts and the long-term funding that was promised in the Honourable Stephen Harper's January 18, 2006 letter.

Federal Trusts

The May 2006 federal budget announced the federal government's intention to create several trusts worth $3.3 billion for the benefit of all provinces and territories. These trusts provide support to provinces and territories for postsecondary education, public transit and housing.

Ontario will receive $390 million over two years from the Postsecondary Education Infrastructure Trust; $352 million over three years from the Public Transit Capital Trust; $312 million over three years from the Affordable Housing Trust; and $80 million over three years from the Off-Reserve Aboriginal Housing Trust.

The Province is including $1,134 million of revenue from these trusts in its medium-term fiscal outlook. The Province proposes that the Operating Contingency Fund under the Ministry of Finance be increased by $1,134 million over three years to reflect supplemental spending related to these trusts, pending satisfactory resolution of issues related to the Canada–Ontario Agreement.

Ontario does not accept the position that the unanticipated measures announced by the federal government in its 2006 Budget count towards the Canada–Ontario Agreement. No other province has been called upon to use these trusts to offset pre-existing federal commitments, deals or obligations.

If the federal government maintains that the trusts apply against the Canada–Ontario Agreement revenues already built into the Province's fiscal plan, which also already have expenditures aligned against them, then there is no supplemental funding available to spend in those areas beyond what was already included in Ontario's March 2006 Budget.

To maintain otherwise would be to claim that funds provided once are to be spent twice.

Fairness for All Canadians

Ontario is calling on the federal government to honour its commitment to the government and to the people of Ontario. This means moving forward to ensure that Canadians living in Ontario are treated fairly by their national government in the areas of health and social transfers, infrastructure funding, support for workers — and all federal programs designed to help Canadians across the country.

Ontario and the federal government must work together in a forward-looking manner to address the future prosperity of the Province and Canada.

The Government of Ontario welcomes Ottawa's acknowledgment and attention to the fiscal imbalance and Ontario's equitable treatment concerns. In the longer term, we need a fundamental re-examination of our fiscal architecture. The Government of Ontario has put forward a number of suggestions for such a review.

Ultimately, the Government of Ontario's position can be summarized, simply, as *Fairness for All Canadians.* We expect the federal government to make meaningful, concrete steps towards achieving fairness immediately.

ANNEX IV

Corporate Tax Harmonization — Creating a More Competitive Tax Climate for Business

CREATING A MORE COMPETITIVE TAX CLIMATE FOR BUSINESS

Strengthening Ontario's competitiveness requires creating a climate for investment growth while ensuring that the government has the resources it needs to make strategic investments in the people and economy of the province.

A competitive tax system is essential to attract business investment and foster economic growth in a highly competitive global economy. Ontario already has a competitive corporate tax system. Ontario's combined federal–provincial statutory corporate income tax rate for manufacturing is below the average for the United States. It is also below the combined rate in each of the Great Lakes states against which Ontario competes most directly.

To further enhance Ontario's investment climate, the Ontario capital tax is being phased out. The capital tax, which taxes business investment rather than profits, is widely recognized as a barrier to investment. As a key element of the government's strategy to promote new investment, economic growth and job creation, a plan to eliminate Ontario's capital tax by 2012 was legislated. The 2006 Ontario Budget built on that plan by accelerating the capital tax rate cut. Starting on January 1, 2007, every corporation still paying capital tax will have its rate cut by five per cent.

The following table sets out the legislated capital tax elimination plan:

ONTARIO'S CAPITAL TAX ELIMINATION PLAN[1]

		Rates (%)			
			Financial Institutions		
				Taxable Capital Above $400 M	
	Deduction ($ M)	Regular Corporations	1st $400 M of Taxable Capital	Non-Deposit Taking	Deposit Taking
Jan. 1, 2004	5	0.3	0.6	0.72	0.9
Jan. 1, 2005	7.5	0.3	0.6	0.72	0.9
Jan. 1, 2006	10	0.3	0.6	0.72	0.9
Jan. 1, 2007	12.5	0.285	0.57	0.684	0.855
Jan. 1, 2008	15	0.285	0.57	0.684	0.855
Jan. 1, 2009	15	0.225	0.45	0.54	0.675
Jan. 1, 2010	15	0.15	0.3	0.36	0.45
Jan. 1, 2011	15	0.075	0.15	0.18	0.225
Jan. 1, 2012	Eliminated				

[1] Shading denotes the five per cent capital tax rate cut announced in the 2006 Ontario Budget and enacted on May 18, 2006.

Ontario's tax system also provides a variety of corporate income tax incentives and rate reductions to encourage economic growth and job creation. These include[1]:

- $380 million in annual support for research and development through Ontario-only tax deductions and tax credits
- $900 million annually to provide a reduced tax rate for small businesses
- $255 million annually to provide a reduced tax rate on income from manufacturing and processing, mining, logging, farming and fishing
- $150 million annually in tax credits to support the entertainment and creative industries.

To further support job creation and Ontario's competitiveness, the government has introduced or enhanced a number of income tax credits:

- The Apprenticeship Training Tax Credit was implemented to encourage the hiring and training of apprentices.
- Tax credits for film and television production, computer animation, sound recording, book publishing and interactive digital media have been enhanced.
- A new, enhanced dividend tax credit is proposed, starting in 2006, that would encourage greater investment in Ontario corporations and better integrate the corporate and personal income tax systems. Ontario taxpayers would pay less tax on their dividends from large Canadian companies, which would, in turn, create a more competitive business and investment climate. This would provide a benefit to investors of $40 million in 2006–07, rising to $120 million when fully implemented in 2010–11.

While a competitive tax system is an important element in enhancing Ontario's attractiveness as a place to invest, other factors also play a key role in business location decisions. For example, publicly funded health care is a major competitive advantage for the province. Ontario has numerous other competitive strengths, including a well-trained labour force, proximity to markets and a high quality of life. The Ontario Government continues to make key investments in infrastructure, health, education and innovation to help strengthen Ontario's business environment.

A 2006 study by KPMG found that the overall cost of doing business in Ontario (including taxes paid by businesses) is below that of most major cities in the United States and other industrialized countries. In fact, among the 24 large cities in the G7 featured in that study, Toronto had the third-lowest cost of doing business.

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[1] Annex V, *Transparency in Taxation*, provides a detailed listing of tax measures provided by Ontario.

Corporate Tax Harmonization[2]

The government is taking additional action to further reduce the cost of doing business in Ontario. The Canada–Ontario Agreement of May 2005 committed both governments to work towards concluding an agreement on a single corporate tax administration.

On October 6, 2006, Ontario entered into a Memorandum of Agreement (MOA) with the federal government to streamline the administration of Ontario's corporate tax system. As a result, Ontario businesses will spend less time on paperwork, and more time creating jobs and fostering a strong, prosperous economy.

When fully implemented, Ontario corporations will save $90 million annually in Ontario corporate income tax from a harmonized corporate income tax base and up to an additional $100 million annually in compliance costs from one tax form, one tax administration and one set of tax rules.

Single Tax Administration

The MOA on a single corporate tax administration represents a major step in the government's goals of providing greater efficiency in service delivery and creating a stronger, more productive and competitive economy.

Effective for taxation years ending after December 31, 2008, Ontario corporations will begin filing a single combined federal and Ontario corporate tax return with the Canada Revenue Agency (CRA). Businesses will begin remitting Ontario tax instalment payments to the CRA as early as February 2008.

The CRA will collect and administer Ontario's corporate income tax, capital tax, corporate minimum tax and the special additional tax on life insurers. The CRA administration of these taxes will include assessments, collections, audits and appeals.

In addition, the MOA allows for the delivery of early compliance gains to business, including more coordinated audits and other administrative efficiencies, prior to the single administration in 2009.

Corporate Income Tax Base Harmonization

As part of the single tax administration, Ontario will enter into a corporate income tax collection agreement with the federal government that is substantially similar to agreements currently in place with all other provinces, except Quebec and Alberta. Ontario already has a tax collection agreement with the federal government for its personal income tax.

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2 Federal administration of Ontario corporate taxes and consequential tax proposals will require legislative amendments that must be approved by the legislature.

The Ontario corporate income tax collection agreement, like those of other provinces, will require Ontario to fully harmonize with the federal definition of corporate taxable income. As a result, any Ontario differences from the federal definition of taxable income will expire for taxation years ending after 2008.

To improve Ontario's competitiveness and enhance the benefits of tax base harmonization, most Ontario-only measures that currently apply in calculating Ontario taxable income will not be replaced. Eliminating these differences from the federal tax base will provide business with an Ontario corporate income tax cut of $90 million a year.

The most significant measure that Ontario will not be replacing is the income tax provision that requires an Ontario-based corporation to add back into income a portion of certain management fees, rents, royalties and other similar payments made to certain non-residents. This add-back provision generally has the effect of imposing a five per cent tax on these payments. Eliminating the add-back will provide an estimated $70 million annual tax reduction that will primarily benefit the manufacturing, wholesale and retail trade, and film production sectors, and help foster a more innovative and competitive economy.

The remaining $20 million net annual cut in Ontario corporate income tax will arise from eliminating other Ontario tax measures in order to harmonize with the federal definition of taxable income.

Support for Research and Development

Ontario currently provides $380 million annually in corporate income tax incentives to support research and development (R&D). One of these incentives is a deduction for the portion of the federal investment tax credit that relates to Ontario scientific research and experimental development (SR&ED). This deduction has the effect of enhancing the value of the federal SR&ED investment tax credit for Ontario corporations. However, as an Ontario-only deduction, it does not conform to the requirements of a harmonized tax base.

Given the importance of R&D to a vibrant, innovative and competitive economy, Ontario will replace this deduction with a new 4.5 per cent non-refundable tax credit on SR&ED expenses incurred in Ontario that qualify for the federal investment tax credit. A phased-in three-year carry-back and a 20-year carry-forward will be provided for unused credits. The tax credit will take effect for taxation years ending after 2008.

The tax credit rate has been set to maintain the same revenue cost to Ontario as the R&D deduction. Ontario's R&D deduction will provide an estimated $200 million of tax support in 2006. By converting the R&D deduction to a tax credit, this tax support would now become taxable for both federal and Ontario tax purposes. While the tax credit rate has been designed to be revenue-neutral to Ontario, the federal government would receive an annual revenue windfall of about $40 million (based on the current $200 million estimate) from the taxation of the credit.

Support for Ontario's Mining Sector

To support jobs and investment in the mining sector, the 2004 Ontario Budget announced that Ontario would not parallel federal legislation to replace the resource allowance with a typically less generous deduction for mining taxes and Crown royalties.

For taxation years ending after 2008, Ontario will be required to follow the federal deduction for mining taxes and royalties. However, to maintain the effect of Ontario's existing resource allowance, a tax credit/debit mechanism, with an indefinite carry-forward for unused credits, will be introduced.

Maintaining the effect of the existing resource allowance will continue to provide an annual benefit of about $40 million, net of the deduction for mining taxes paid, to the mining sector in Ontario's northern communities.

Transitional Rules for Income Tax Base Harmonization

The requirement to parallel the federal definition of taxable income means that federal "pools" for items such as unclaimed depreciation and losses will apply for Ontario purposes starting with taxation years ending after 2008.

Ontario generally parallels federal income tax base changes in order to reduce compliance costs to business. As a result, many corporations do not have significant differences in their tax pools for Ontario and federal purposes. In some cases, however, differences may arise where corporations have deducted different amounts from their tax pools for Ontario and federal purposes.

In the absence of transitional rules, the use of federal tax pools could cause Ontario corporate income tax to be either overstated or understated.

To ensure a smooth transition to the federal tax base, Ontario will introduce a mechanism that is designed to eliminate, over five years, the amounts by which Ontario corporate income tax is overstated or understated.

Ontario will be consulting with the business community on the details of the transitional rules.

Capital Tax Base Harmonization

Until Ontario's capital tax is eliminated, harmonizing with the federal corporate income tax base will require changes to the calculation of Ontario capital tax. Currently, corporations that are not financial institutions calculate their Ontario taxable capital by restating the balance sheet into Ontario corporate income tax values. Since corporations will no longer be calculating Ontario corporate income tax values after 2008 as a result of income tax base harmonization, Ontario will need to move to a new method of calculating taxable capital.

To further enhance business compliance savings and administrative efficiencies for the Ontario and federal governments, Ontario's capital tax base for non-financial institutions will be harmonized with the federal Large Corporations Tax (Part I.3 of the *Income Tax Act* (Canada)). Ontario's legislated capital tax elimination schedule will continue to apply. In the case of corporations with permanent establishments in Ontario and elsewhere, the capital tax liability will also continue to be reduced to reflect the percentage of income allocated outside Ontario.

Since Ontario's capital tax for financial institutions is already largely harmonized with the federal capital tax, no policy changes are required with respect to the Ontario capital tax for financial institutions, except that it will be administered by the CRA for taxation years ending after 2008.

Benefits to Provinces

The MOA contains a number of provisions that will benefit Ontario and other provinces that participate in a corporate income tax collection agreement. These include:

- a federal–provincial review to ensure the provinces are not disadvantaged by the current timing of federal tax payments
- $25 million in annual federal funding for a national initiative to be led by the CRA, comprising enhanced audits of interprovincial income allocation and targeting of interprovincial tax avoidance
- a federal–provincial study on the feasibility of developing a program that would allow corporate income tax refunds to be applied against other provincial and federal tax debts
- an improved management and accountability framework with the CRA.

Provinces will also benefit under their personal income tax collection agreements. For example, the federal government has agreed to waive the charges to the provinces for costs incurred by the CRA to develop the provincial tax-on-income system for personal income tax. This represents a $22 million saving to Ontario.

ANNEX V

TRANSPARENCY IN TAXATION

TRANSPARENCY IN TAXATION

The enactment of the *Fiscal Transparency and Accountability Act, 2004*, represents a major commitment of the Ontario Government to be more open and accountable. Under Section 6 of the Act, the Minister of Finance is required to release a mid-year review of the fiscal plan on or before November 15 of each year, which must include information about the estimated cost of expenditures made through the tax system.

Tax expenditure reporting is an important element of improved fiscal transparency and accountability. This report is the second annual compilation of the estimated cost of Ontario tax provisions.

STRUCTURE OF THE REPORT

This report provides estimates of revenue forgone in 2006 with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge

Descriptions of each tax provision were provided in the government's first Transparency in Taxation report, presented in Annex III of the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers*. Please refer to the 2005 report for the descriptions.

Electronic copies of the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers* are available via the Internet at:

www.fin.gov.on.ca/english/economy/ecoutlook/statement05/05fs-paperce.pdf

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This report includes descriptions only for tax provisions that are new or have been modified since 2005. The descriptions are intended to provide a basic understanding of the provisions and do not replace the relevant legislation or regulations.

Scope

Given the absence of a universally accepted definition of a "tax expenditure," this report continues the broad approach adopted in last year's report of listing estimates of forgone revenue that could potentially be included under a broad-based tax system.

Personal and corporate income tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the personal income tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario currently collects and administers its own corporate income tax. However, on October 6, 2006, Ontario entered into a Memorandum of Agreement with the federal government under which the federal government would collect and administer Ontario's corporate income tax and capital tax, effective for taxation years ending after 2008. (See Annex IV, *Corporate Tax Harmonization*, for additional details.)

Method

The estimates in this report were developed using the latest available taxation or economic data, forecast to the 2006 calendar year. The data used to estimate the values of the tax provisions come from a variety of sources. Revisions to the underlying data, as well as improvements to the estimation method, may result in changes to the estimated value of a provision in future publications. As well, some tax provision estimates are particularly sensitive to economic conditions or other variables and those values could fluctuate significantly from year to year.

It is important to note that the estimates in this report are not intended to represent the potential revenue gain for the Province if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change, behavioural responses, the interaction among various tax provisions, or any modifications in policy that might reasonably accompany the change. As a result, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures.

Tax expenditure estimates of less than $1 million are denoted by the letter "s" (small). This report also includes tax provisions for which relevant data from the tax system are not currently available to the Ministry of Finance. Although estimates may not be available, these items are listed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario's tax expenditure estimates.

Personal Income Tax

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business provisions listed here are for unincorporated businesses.

Table 1: Personal Income Tax[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Ontario Non-refundable Tax Credits	
Adoption Expense Credit[3]	1
Age Credit	230
Amounts Transferred from Spouse	40
Basic Personal Credit	4,105
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	520
Caregiver Credit	15
Charitable Donations Credit	520
Disability Credit	80
Eligible Dependant Credit	90
Employment Insurance (EI) Premiums Credit	195
Infirm Dependant Credit	1
Medical Expense Credit	105
Ontario Overseas Employment Tax Credit	5
Pension Income Credit	90
Spouse or Common-law Partner Credit	215
Student Loan Interest Credit	10
Tuition Fee and Education Credits	310
Ontario Tax Reduction (OTR)	
OTR — Basic Reduction	165
OTR — Reduction for Dependent Children Under 19	195
OTR — Reduction for Disabled or Infirm Dependants	8
OTR — Total	305
Other Ontario Tax Credits[4]	
Ontario Focused Flow-through Share Tax Credit	2
Ontario Political Contribution Tax Credit	5

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Ontario Property and Sales Tax Credits (OPSTC)	
OPSTC — Non-seniors	460
OPSTC — Seniors[5]	505
OPSTC — Total[5]	965
Ontario Labour Sponsored Investment Fund and Employee Ownership Tax Credits	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	20
Research-oriented Investment Fund (ROIF) Tax Credit	1
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Business	
Items for Which an Estimate is not Available	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
Employment	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction of Other Employment Expenses	260
Deduction of Union and Professional Dues	130
Employee Stock Options	150
Moving Expense Deduction	15
Northern Residents' Deductions	1
Items for Which an Estimate is not Available	
Deductions for Tradespersons' and Apprentice Vehicle Mechanics' Tools	
Deductions for Artists and Musicians	
Deduction for Military and Police Deployed to High-risk International Missions	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Non-taxation of Allowances to Public Officials	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Special Tax Computations for Certain Retroactive Lump-sum Payments	
Farming and Fishing	
Items for Which an Estimate is not Available	
Cash-basis and Flexibility in Inventory Accounting	
Deduction of Farm Losses for Part-time Farmers	
Deferral of Income for Farmers	
Net Income Stabilization Account for Farmers	
Investment	
$500,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares	140
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	250
Deduction of Resource-related Expenditures	70
Partial Inclusion of Capital Gains	525
Items for Which an Estimate is not Available	
Capital Gains Exemptions — $1,000 on Personal-use Property and $200 on Foreign Exchange Transactions	
Deduction of Limited Partnership Losses	
Deferral of Capital Gains Through Five-year Reserve	
Deferral of Capital Gains Through Rollovers	
Deferral of Capital Gains Through 10-year Reserve for Farming or Fishing Property and Small Business Shares	
Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust	
Non-taxation of Capital Gains on Principal Residences	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Taxation of Capital Gains Upon Realization	
Non-taxable Income	
Guaranteed Income Supplement and Allowance Benefits	20
Social Assistance Benefits	20
Workers' Compensation Benefits	155
Items for Which an Estimate is not Available	
Certain Government Pensions and Allowances	
Damages With Respect to Personal Injury or Death	
Death Benefits of Up to $10,000	

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	
Special Circumstances	
Child Care Expense Deduction	150
Treatment of Alimony, Maintenance and Child Support Payments	50
Items for Which an Estimate is not Available	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
Tax-deferred Savings	
Registered Pension Plans (RPP) — Deduction for Contributions	565
Registered Retirement Savings Plans (RRSP) — Deduction for Contributions	1,875
Items for Which an Estimate is not Available	
Deferred Profit-sharing Plans	
Registered Education Savings Plans (RESP)	
RPP and RRSP — Non-taxation of Investment Income	

1 Estimates do not include the impact of revenue forgone from personal income tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.
2 Estimates are based on 2003 tax-filer data forecast to represent the 2006 taxation year, unless otherwise noted. Tax-filer data include only those returns assessed within one year of the taxation year.
3 Estimate is based on federal estimates.
4 Estimates are based on tax-sharing statements (TSS) unless otherwise noted.
5 Estimate is based on TSS and the enrichment of the income threshold for senior couples to $23,090 proposed in the 2006 Ontario Budget.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

The following Personal Income Tax provisions have changed since 2005.

ONTARIO NON-REFUNDABLE TAX CREDITS

The non-refundable tax credits listed in the following table are based on amounts that are adjusted for inflation each year. A brief description of these tax provisions is available in the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers.*

AMOUNTS ON WHICH INDEXED NON-REFUNDABLE TAX CREDITS ARE BASED

	Base Amount	
Non-refundable Tax Credits	2005 ($)	2006 ($)
Adoption Expense Credit, maximum claim	10,000	10,220
Age Credit, maximum claim	4,002	4,090
Reduced by 15 per cent of individual's net income in excess of	29,793	30,448
Basic Personal Credit	8,196	8,377
Caregiver Credit, maximum claim	3,863	3,948
Reduced by dependant's net income in excess of	13,218	13,509
Disability Credit	6,622	6,768
Eligible Dependant Credit, maximum claim	6,960	7,113
Reduced by dependant's net income in excess of	696	711
Dependant's net income less than	7,656	7,824
Infirm Dependant Credit, maximum claim	3,863	3,948
Reduced by dependant's net income in excess of	5,492	5,613
Medical Expense Credit		
Qualifying medical expenses in excess of the lesser of three per cent of net income and	1,856	1,896
Qualifying medical expenses of other dependant, maximum claim	10,000	10,220
Pension Income Credit, maximum claim	1,133	1,158
Spouse or Common-law Partner Credit, maximum claim	6,960	7,113
Not exceeding spouse's or common-law partner's net income deducted from	7,656	7,824
Tuition Fee and Education Credits		
Education Credit, full time (per month)	441	451
Education Credit, part time (per month)	132	135
Maximum transfer	5,667	5,792

Other Ontario Tax Credits

Ontario Property and Sales Tax Credits (OPSTC) —The Property Tax Credit is the lesser of occupancy cost and a basic property tax credit amount plus 10 per cent of occupancy cost. Occupancy cost is property tax or 20 per cent of rent paid on an individual's or couple's principal residence plus $25 if residing in a college residence. The basic property tax credit amount is $250 for non-senior individuals or couples and $625 for senior individuals or couples. The Sales Tax Credit is $100 for an individual plus $100 for a spouse or common-law partner and $50 for each dependent child aged 18 or under. The credits for non-seniors are jointly reduced by two per cent of family net income in excess of $4,000; the credits for seniors are jointly reduced by four per cent of family net income in excess of $22,250, which the 2006 Ontario Budget proposes to increase for senior couples. The maximum OPSTC are $1,000 for non-seniors and $1,125 for seniors. The estimate includes the proposed increase to the income threshold for senior couples, which is expected to be $23,090 for 2006.

Exemptions, Deductions and Deferrals Shared with the Federal Government

Employment

Item for Which an Estimate is not Available

Deductions for Tradespersons' and Apprentice Vehicle Mechanics' Tools —Tradespersons and registered apprentice vehicle mechanics may deduct from their employment income as a tradesperson or apprentice mechanic an amount of up to $500 for the cost of their tools in excess of a specified amount. The deduction for tradespersons' tools parallels the 2006 federal budget initiative.

Investment

$500,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares — A $500,000 lifetime capital gains exemption is available for gains from the disposition of qualified farming or fishing property and small business shares. The inclusion of fishing property parallels the 2006 federal budget initiative.

Items for Which an Estimate is not Available

Deferral of Capital Gains Through Rollovers — Individuals (other than trusts) are permitted a rollover of capital gains on eligible small business investments. To the extent that the proceeds are reinvested in one or more eligible small business corporations, the liability for personal income tax on the gain is deferred until the replacement property is sold.
In addition, capital gains on intergenerational transfers of farming or fishing property are deferred in certain circumstances until the property is disposed of outside the immediate family. The inclusion of fishing property parallels the 2006 federal budget initiative.

Deferral of Capital Gains Through 10-year Reserve for Farming or Fishing Property and Small Business Shares — If proceeds from the sale of small business shares or from the sale of farming or fishing property to a child, grandchild or great-grandchild are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10 per cent of the gain must be brought into income each year, creating a maximum 10-year reserve period. For most other assets, the maximum reserve period is five years. The inclusion of fishing property in the 10-year reserve provision parallels the 2006 federal budget initiative.

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — Effective May 2, 2006, capital gains arising from gifts of publicly listed securities and ecologically sensitive land to public charities are exempt from tax. Previously, capital gains on such donations were subject to one-half the normal 50 per cent inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Special Circumstances

Item for Which an Estimate is not Available

Exemption of Scholarship, Fellowship and Bursary Income — For students eligible for the education credit, scholarship, fellowship and bursary income is exempt from tax, starting in 2006. Previously, the first $3,000 of this income was exempt.

CORPORATE TAX

The estimated values of tax provisions in the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 2.

TABLE 2: CORPORATE TAX

Tax Provisions	2006 Estimates ($ Millions
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit[2,3]	9
Co-operative Education Tax Credit[2,3]	
Ontario Book Publishing Tax Credit[4]	
Ontario Business Research Institute Tax Credit	
Ontario Computer Animation and Special Effects Tax Credit[4]	
Ontario Film and Television Tax Credit[4]	9
Ontario Innovation Tax Credit	18
Ontario Interactive Digital Media Tax Credit[4]	
Ontario Production Services Tax Credit[4]	4
Ontario Sound Recording Tax Credit[4]	
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	
Assets Used to Generate Clean Energy	
Manufacturing and Processing (M&P) and Resource Sector Credit	25
Non-taxation of the Federal Investment Tax Credit[5]	20
Ontario Current Cost Adjustment	
Ontario Depletion Allowance	
Ontario New Technology Tax Incentive	
Ontario Political Contributions	
Ontario Resource Allowance[6]	8
Small Business Deduction[7]	90

Table 2: Corporate Tax

Tax Provisions	2006 Estimates[1] ($ Millions)
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Allowable Business Investment Losses[8,9]	5
Deductibility of Charitable Donations[8]	110
Deductibility of Gifts to the Crown[8]	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land[8]	s
Deferral of Income for Farmers[8]	s
Holdback on Progress Payments to Contractors[8]	20
Non-taxation of Non-profit Organizations[8]	100
Partial Inclusion of Capital Gains[8]	940
Items for Which an Estimate is not Available	
Accelerated Write-off of Capital Assets and Resource-related Expenditures	
Cash-basis Accounting and Flexibility in Inventory Accounting	
Deductibility of Countervailing and Anti-dumping Duties	
Deferral Through Capital Gains Rollovers	
Deferral Through Use of Billed-basis Accounting by Professionals	
Expensing of Advertising Costs	
Non-taxation of Provincial, Municipal and Federal Crown Corporations	
Non-taxation of Registered Charities	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Tax Exemption on Income of Foreign Affiliates of Canadian Corporations	
Taxation of Capital Gains upon Realization	
Capital Tax[10]	
Capital Tax Deduction	300
Deferred Mining Exploration and Development Expenses	6
Deferred Ontario New Technology Tax Incentive and Scientific Research and Experimental Development Costs	s
Exemption for Assets Used to Generate Clean Energy	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	10
Items for Which an Estimate is not Available	
Renounced Mining Expenses	

TABLE 2: CORPORATE TAX

Tax Provisions	2006 Estimates ($ Millions
Mining Tax[11]	
Mining Tax Exemption	[illegible]
Mining Tax Holiday for Mines (other than remote mines)	
Mining Tax Holiday for New Remote Mines	
Mining Tax Rate for Remote Mines	
Processing Allowance	5
Items for Which an Estimate is not Available	
Fast Writeoff of Exploration Costs	

1 Estimates are forecast to the 2006 calendar year based on preliminary 2004 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue impact of corporate income tax expenditures provided to mutual fund corporations.

2 Estimates include the impact of both the corporate and personal income tax provisions.

3 The Apprenticeship Training Tax Credit was announced in the 2004 Ontario Budget. The estimated 2006–07 impact as provided in the Budget was $95 million. Some of the apprenticeship programs previously included under the Co-operative Education Tax Credit (CETC) were transferred to the new credit. The estimate for the CETC was produced at the time of the 2004 Ontario Budget.

4 The estimates include the impact of the enhancements outlined in the 2005 Ontario Budget and/or the 2006 Ontario Budget.

5 Relating to qualifying Ontario Research and Development expenses.

6 The resource allowance applies to the mining and oil and gas sectors. The estimate is *not* net of mining taxes and Crown royalties paid.

7 Includes the impact of the Ontario surtax on Canadian-controlled private corporations.

8 Estimates based on assessed 2004 federal tax administration data, allocated to Ontario and forecast to 2006.

9 Estimate could overstate true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.

10 Ontario has legislated a plan to eliminate the capital tax by 2012. The capital tax elimination plan is outlined in Annex IV, *Corporate Tax Harmonization*.

11 Estimates are forecast to the 2006 calendar year based on preliminary 2004 Ontario mining tax administration data.

Corporate Tax — Description of Tax Provisions

The following Corporate Income Tax provisions have changed since 2005.

Corporate Income Tax

Ontario Refundable Tax Credits

Ontario Interactive Digital Media Tax Credit — A 20 per cent refundable tax credit for the creation, marketing and distribution of original interactive digital media products by corporations with annual gross revenues of up to $20 million and total assets of up to $10 million. The 2006 Ontario Budget proposed to expand the tax credit rate from 20 per cent to 30 per cent for corporations qualifying under the existing provisions and to extend eligibility for a 20 per cent tax credit to corporations that exceed the current size test and to corporations performing fee-for-service work in Ontario.

Ontario Production Services Tax Credit — An 18 per cent refundable tax credit for foreign-based and non-certified domestic film and television production activity in Ontario. The 18 per cent rate has been extended from March 31, 2006 to March 31, 2007.

Exemptions, Deductions and Deferrals Shared with the Federal Government

Items for Which an Estimate is not Available

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — Effective May 2, 2006, capital gains arising from gifts of publicly listed securities and ecologically sensitive land to public charities are exempt from tax. Previously, capital gains on such donations were subject to one-half the normal 50 per cent inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Sales and Commodity Tax

The estimated values of tax provisions relating to sales and commodity taxes, including the Fuel Tax, Gasoline Tax, Land Transfer Tax, Retail Sales Tax and Tobacco Tax, are presented in Table 3.

Table 3: Sales and Commodity Tax

Tax Provisions	2006 Estimates[1] ($ Millions)
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel[2]	s
Exemption for Coloured Fuel[3]	420
Reduced Rate for Railway Diesel[4]	32
Refunds	
Auxiliary Power Take-off Equipment[5]	6
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Ethanol, Methanol and Natural Gas[6]	55
Reduced Rate for Aviation Aircraft[7]	265
Reduced Rate for Propane[7]	10
Refunds	
Auxiliary Power Take-off Equipment[5]	s
Aviation Fuel[5]	s
Tax-exempt Use in Unlicensed Equipment[5]	7
Land Transfer Tax	
Exemptions	
Life Leases[8]	1
Deferrals and Exemptions for Corporate Reorganizations[5]	29
Items for Which an Estimate is not Available	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Refunds	
Refund for First-time Home Buyers[5]	33
Retail Sales Tax	
Exemptions	
25¢ Coin Pay Phone Calls[8]	7
Agricultural Goods	250
Audio Books Purchased by Persons Who Are Legally Blind[8]	4
Automobile Insurance Premiums[9,10]	800
Basic Groceries[10]	1,600
Books, Newspapers and Magazines Sold by Subscription	375
Children's Car Seats and Booster Seats[10]	4
Children's Clothing	130
Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial Vessels Less than 1,400 Cubic Metres	80
Custom Software[11]	75
Donations to Schools, Colleges and Universities[8]	6
Educational CD-ROMs and DVDs[8]	3
Energy	4,190
Feminine Hygiene Products[10]	19
Footwear Sold for $30 or Less	30
Goods Purchased for Use by Fishers and Fur-trappers	s
Individual Life and Health Insurance Premiums[12]	435
Mobile Homes	s
Municipal Fire-fighting Equipment	s
Prepared Foods Sold for $4 or Less[10]	230
Prescription Drugs and Medical Supplies	830
Production Machinery and Equipment	560
Religious Equipment	10
Repairs and Replacements Performed Under Warranty[9]	140
Seedlings	s
Services	9,640
Toll-free Telephone Services[8]	46

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Transient Accommodation[13]	85
University Research Equipment	5
Items for Which an Estimate is not Available	
Admissions	
Municipal, Hospital Restructuring	
Museums and Art Galleries	
Used Adult Clothing or Footwear Sold for $50 or Less by Religious, Charitable and Benevolent Organizations	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles[5]	4
RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations[5]	22
Tax Credit for Fuel Conservation[14]	5
Temporary Exemption for Destination Marketing Fees[10]	2
Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities[5]	s
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems[5]	s
Vendor Compensation[15]	105
Tobacco Tax	
Compensation for Tax Collectors[16]	s

1 Estimates are forecast to the 2006 calendar year based on preliminary 2002 provincial Input–Output tables from Statistics Canada, unless otherwise noted.
2 Based on estimated amount of biodiesel sold in Ontario.
3 Based on returns filed by registered dyers.
4 Forgone revenue estimated as difference from the regular fuel tax rate.
5 Based on refunds filed or rebates/deferrals claimed.
6 Based on estimated ethanol volumes produced in and imported to Ontario.
7 Forgone revenue estimated as difference from the regular gasoline tax rate.
8 Based on the Ontario Budget estimate, when the measure was proposed, projected to 2006.
9 Estimates assume items would be taxed at eight per cent general RST rate.
10 Figure derived from estimated consumer spending.
11 Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.
12 Based on insurance premiums data provided by the Canadian Life and Health Insurance Association Inc.
13 The RST rate on accommodations is five per cent. Forgone revenue estimated as difference from the regular RST rate of eight per cent.
14 Based on new passenger vehicle sales.
15 Based on returns filed by RST vendors.
16 Based on returns filed by tobacco tax collectors.

Sales and Commodity Tax — Description of Tax Provisions

The following Sales and Commodity Tax provisions have changed since 2005.

Retail Sales Tax

Credits/Rebates

Rebate for Alternative Fuel Vehicles – The RST paid on vehicles powered by alternative fuels is refunded, to a maximum of $750 for propane vehicles and $1,000 for vehicles powered by any other alternative fuel. Certain hybrid electric vehicles are also eligible for a rebate. The 2006 Ontario Budget doubled the maximum RST rebate for qualifying hybrid electric vehicles from $1,000 to $2,000.

Temporary Exemption for Destination Marketing Fees – There is an RST exemption for destination marketing fees charged on transient accommodation on or after May 19, 2004 and on or before June 30, 2006. The 2006 Ontario Budget extended the exemption to include destination marketing fees billed on or before June 30, 2007.

EDUCATION PROPERTY TAX

Table 4 provides estimates of tax provisions relating to the Education Property Tax system.

TABLE 4: EDUCATION PROPERTY TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Brownfields Financial Tax Incentive Program[3]	s
Charity Rebate	7
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	s
Farm Property Class Tax Rate Reduction	65
Farmlands Awaiting Development Sub-class Tax Rate Reduction	s
Heritage Property Tax Rebate	s
Live Performance Theatres Exemption and Professional Sports Facility Tax Rate Reduction[4]	2
Managed Forest Tax Incentive Program	2
Seniors and Persons with Disabilities Property Tax Relief[5]	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	30
Vacant Land and Excess Land Sub-class Tax Rate Reduction	50
Items for Which an Estimate is not Available	
Other Tax Exemptions Under Public Statutes	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, public–private capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, Boy Scouts Association of Canada and Canadian Girl Guides Association, charitable institutions including Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor)	
Relief from Property Taxes That are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

1 Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.

2 Estimates based on 2006 education tax rates, 2006 Assessment Roll, 2004 Municipal Financial Information Returns and municipal tax policies.

3 Effective October 1, 2004, municipalities may pass bylaws cancelling municipal property taxes on eligible brownfields properties. The Province may match the municipal reduction with an education property tax reduction.

4 In 2006, improved information allowed a much more precise estimate of the exemptions given to live performance theatres.

5 Estimate does not include expenditures due to the exemption from taxation on 10 per cent of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.

EMPLOYER HEALTH TAX

Table 5 provides an estimate of the tax exemption under the Employer Health Tax system.

TABLE 5: EMPLOYER HEALTH TAX (EHT)

Tax Provision	2006 Estimate ($ Millions)
$400,000 Exemption for Private-sector Employers[1]	760

[1] Estimate is based on new methodology and 2004 remuneration data forecast to represent the 2006 taxation year.

ESTATE ADMINISTRATION TAX

Table 6 provides an estimate of the 2006 exemption under the Estate Administration Tax system.

TABLE 6: ESTATE ADMINISTRATION TAX

Tax Provision	2006 Estimate ($ Millions)
Exemption Where the Value of the Estate Does Not Exceed $1,000	s

GROSS REVENUE CHARGE

Table 7 provides an estimate of the tax provision under the Gross Revenue Charge.

TABLE 7: GROSS REVENUE CHARGE (GRC)[1]

Tax Provision	2006 Estimate[2] ($ Millions)
Gross Revenue Charge 10-year Holiday	s

[1] Expenditure does not include the provincial water rental portion of the GRC.
[2] 2006 estimate based on 2004 GRC returns.

ANNEX VI

Borrowing and Debt Management

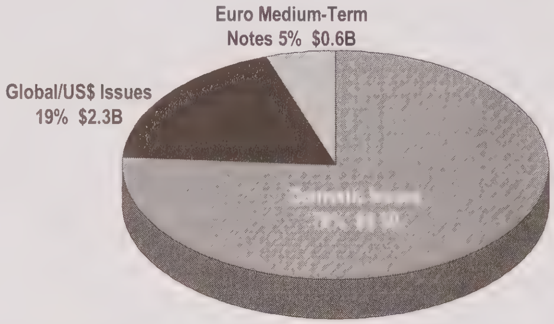
Long-Term Public Borrowing

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2006–07 is projected at $20.4 billion, down $0.4 billion from the $20.8 billion estimated in the 2006 Budget Plan, and down $0.1 billion from the estimate published in the First Quarter Ontario Finances.

As at September 30, 2006, the Province had raised approximately $10.5 billion or 51 per cent of the long-term public borrowing requirement. Since the end of the quarter, the Province has raised an additional $1.7 billion, for a total of $12.2 billion as at October 16, 2006, leaving $8.2 billion of borrowing to be completed.

Borrowing — All Markets

C$12.2 billion issued



Source: Ontario Financing Authority (October 16, 2006).

Of the $12.2 billion, approximately $9.3 billion or 76 per cent has been issued in the domestic market through a number of instruments. These included:

- Syndicated issues
- Ontario Savings Bonds
- Medium-Term Notes
- Bond auctions.

The Province also issued debt successfully in the international capital markets, including:

- two US$1 billion Global bond issues
- Euro Medium-Term Notes (EMTNs) in U.S. dollars and South African rand.

The Canadian domestic market will continue to be the main funding source in 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for diversified borrowing opportunities that minimize debt servicing costs. Should cost-effective opportunities continue to be available, approximately 25 per cent of the long-term borrowing program will be raised from international markets.

2006–07 Borrowing Program: Province and OEFC ($ Billions)

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	2.4	1.9	(0.4)
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	0.4	(0.6)
Amortization of Major Tangible Capital Assets	(2.2)	(2.3)	(0.1)
Investment in Capital Assets	2.5	2.6	–
Debt Maturities	15.1	14.9	(0.2)
Debt Redemptions	0.7	0.9	0.2
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	–
Other Uses/(Sources) of Cash	0.2	0.9	0.6
Total Long-Term Public Borrowing Requirement	**20.8**	**20.4**	**(0.4)**

Note: Numbers may not add due to rounding.

The change in the total long-term public borrowing requirement for 2006–07 is primarily due to a $0.4 billion decline in the deficit from the 2006 Budget plan. The $0.6 billion decline in non-cash items included in the deficit reflects the net cash impact of the $1.1 billion cash transfer from the federal trusts. This decline in non-cash items is offset by the $0.6 billion increase in other uses of cash, resulting from new loans to school boards under the Good Places to Learn initiative.

Medium-Term Borrowing Outlook: Province and OEFC ($ Billions)

	2006–07	2007–08	2008–09
Deficit/(Surplus)	1.9	2.2	1.0
Adjustments for:			
Non-Cash Items Included in Deficit	0.4	1.8	1.5
Amortization of Major Tangible Capital Assets	(2.3)	(2.4)	(2.6)
Investment in Capital Assets	2.6	2.7	2.7
Debt Maturities:			
Currently Outstanding	14.9	13.8	20.2
Incremental Impact of Future Refinancing	–	1.0	–
Debt Redemptions	0.9	0.7	0.7
Canada Pension Plan Borrowing	(0.3)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	–	0.2	0.6
Decrease/(Increase) in Short-Term Borrowing	1.3	0.3	–
Other Uses/(Sources) of Cash	0.9	0.6	0.8
Total Long-Term Public Borrowing Requirement	**20.4**	**20.5**	**24.4**

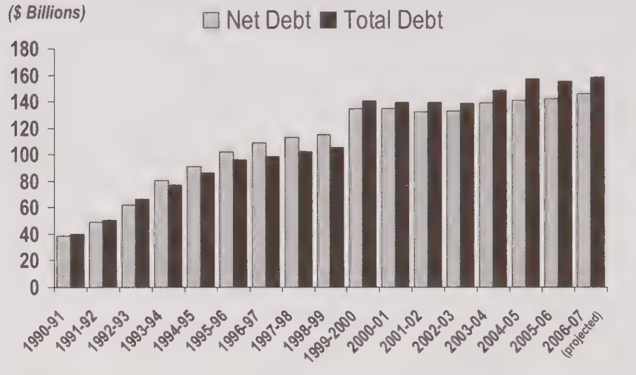
Note: Numbers may not add due to rounding.

Refinancing maturing debt remains a primary component of the medium-term borrowing outlook. Total long-term public borrowing is forecast to increase by $0.7 billion in 2007–08, and $1.0 billion in 2008–09 from the forecast at the time of the 2006 Budget to reflect the revised deficit projections in those years.

DEBT

The Province's total debt as at September 30, 2006 was $156.1 billion. Total debt, which represents all borrowing by the Province without including offsetting financial assets, is projected to be $158.1 billion as at March 31, 2007, compared to $154.9 billion as at March 31, 2006. Total debt is forecast to increase by more than the projected deficit because of an increase in the Province's net investment in capital assets. This investment represents capital assets acquired by the Province (including land, buildings, highways and bridges) net of corresponding amortization expense.

Debt



Sources: Ontario Public Accounts 1991–2006, Ontario Ministry of Finance and Ontario Financing Authority (September 30, 2006).

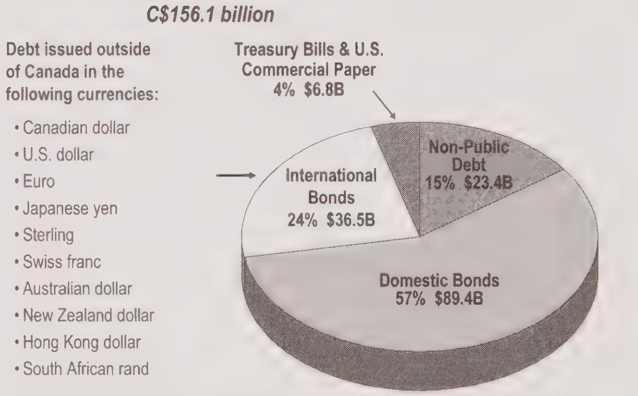
Ontario's net debt — the difference between the Province's total liabilities and total financial assets — is projected to be $145.3 billion as at March 31, 2007, compared to $141.9 billion as at March 31, 2006. As with total debt, net debt is forecast to increase by more than the projected deficit primarily because of the increase in the Province's net investment in capital assets.

TOTAL DEBT COMPOSITION

Total debt of $156.1 billion as at September 30, 2006 consists of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.

Public debt totals $132.7 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $23.4 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of non-marketable debt instruments issued to public-sector pension funds, including the Canada Pension Plan (CPP), mainly in the 1980s.

Total Debt Composition



Source: Ontario Financing Authority (September 30, 2006).

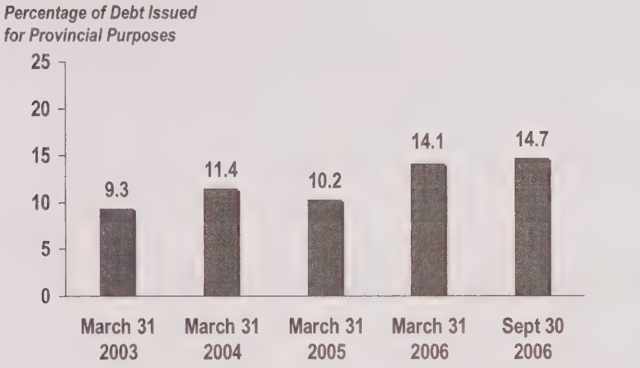
Debt Management

The Province mitigates the financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

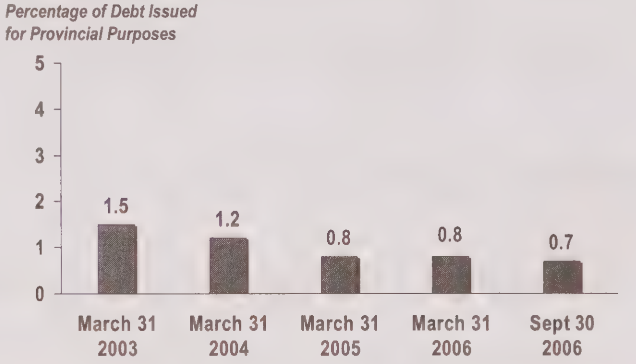
The Province's interest rate reset and foreign exchange exposures have remained well below policy limits during the first half of 2006–07.

Interest Rate Reset Exposure



Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

Foreign Exchange Exposure

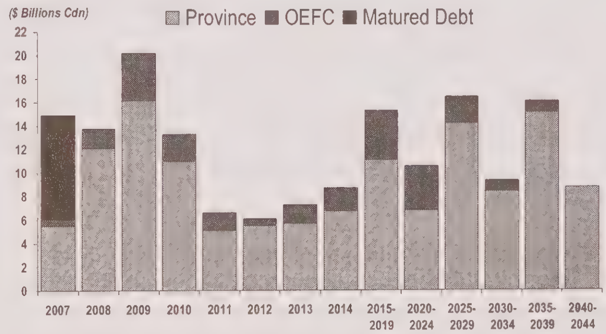


Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

Debt Maturities

The most significant component of the borrowing program is the refinancing of debt maturities. The Ontario Financing Authority (OFA), on behalf of the Province, will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities



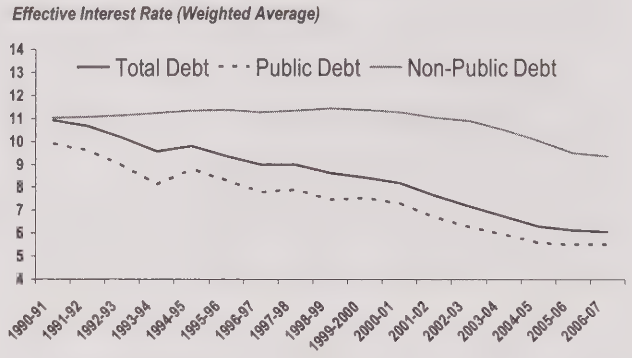
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date.
Excludes the incremental impact of future refinancing.

Source: Ontario Financing Authority (September 30, 2006).

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt of $156.1 billion as at September 30, 2006 was 6.08 per cent, compared to 6.14 per cent as at March 31, 2006. As at March 31, 1991, the effective interest rate on total debt was 10.92 per cent.

Effective Interest Rate (Weighted Average) of Debt



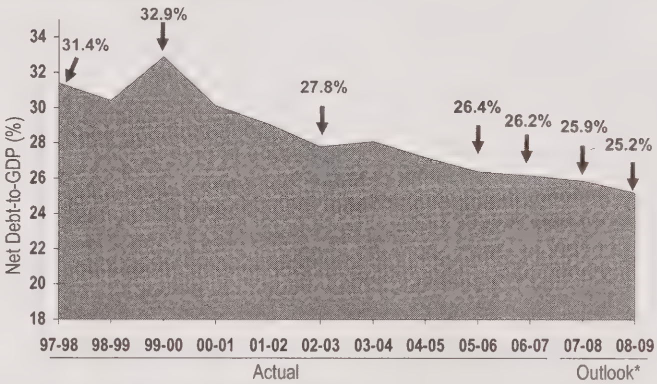
Sources: Ontario Public Accounts 1991–2005 and Ontario Financing Authority (September 30, 2006).

The effective interest rate on public debt was 5.51 per cent as at September 30, 2006, a decrease from 5.52 per cent as at March 31, 2006. The effective interest rate on non-public debt was 9.35 per cent as at September 30, 2006, a decrease from 9.49 per cent as at March 31, 2006.

Net Debt-to-GDP

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of OEFC, which manages the debt and certain other liabilities of the former Ontario Hydro. Since then, Ontario's net debt-to-GDP ratio has trended downward, declining to 26.4 per cent in 2005–06. The current outlook projects a ratio of 26.2 per cent in 2006–07, 25.9 per cent in 2007–08 and 25.2 per cent in 2008–09.

Net Debt-to-GDP



* Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance (September 30, 2006).

GLOSSARY OF FINANCIAL TERMS USED IN ANNEX VI

Amortization of Major Tangible Capital Assets: the portion of the cost of major tangible capital assets owned by the Province allocated to annual expense, the portion of the cost of tangible capital assets of fully consolidated government organizations allocated to annual expense, and the Province's portion of the cost of major tangible capital assets of hospitals, school boards and colleges allocated to annual expense.

Canada Pension Plan Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Debt Maturities: total forecasted amount of debt that will be due for repayment in the fiscal year.

Debt Redemptions: total forecasted amount of Ontario Savings Bonds expected to be presented for redemption prior to maturity.

Domestic Bonds: debt securities issued in the domestic market, settling through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash and other short-term liquid instruments.

Investment in Capital Assets: the cost of acquiring major tangible capital assets owned by the Province during the year, including land, buildings, highways and bridges; the cost of tangible capital assets acquired by fully consolidated government organizations, including land, buildings and equipment; and the Province's portion of the cost of tangible capital assets acquired by hospitals and colleges during the year, including land, buildings and equipment.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

Net Debt: the difference between the Province's total liabilities and total financial assets. The annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges.

Non-Cash Items Included in Deficit: adjustments to the deficit (reported on an accrual basis) to determine cash flows to be used in operating activities. Non-cash adjustments include revenues that are earned but not received and/or expenses that were recognized but not paid during the fiscal year.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Treasury Bills: short-term debt instruments issued by governments on a discount basis, usually for durations of 91 days, 182 days or 52 weeks.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.

ANNEX VII

Details of Ontario's Finances

Section I: Potential Expense Risks, Cost Drivers and Contingent Liabilities

Expense Risks and Sensitivities

Containing the rate of growth in the Province's medium-term expense plan is a key element of Ontario's fiscal plan. However, a number of expense risks and cost drivers could affect the Province's fiscal performance over the medium term.

A key cost driver within Ontario's expense outlook is the demand for programs and services that arises from changes in the economic outlook or other utilization pressures. These pressures are especially evident in the health and social services sectors.

Under the enhanced reporting introduced in the 2006 Budget, the net expenses of the Province's hospitals, school boards and colleges are included with the Province's total expense. Therefore any variance on these consolidated expenses will impact the Province's bottom line.

The following sensitivities are based on averages for program areas and could change, depending on the nature and composition of the potential risk.

Key sensitivities and risks to the Province's revenue outlook that could follow from unexpected changes in economic conditions are described in Annex I, *Ontario's Economic and Revenue Outlook.*

Selected Expense Risks and Sensitivities

Program/Sector	2006–07 Assumption	2006–07 Sensitivities
Health Sector	Annual growth of 8.2 per cent.	One per cent change in health spending: $355 million.
Hospitals	Annual growth of 11.1 per cent.	One per cent change in hospital net expense: $165 million.
Drug Utilization	Annual growth of 10 per cent.	One per cent change in utilization of all drug programs: $35 million (seniors and social assistance recipients).
Long-Term Care Homes	75,500 long-term care home beds.	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $38,000. One per cent change in number of beds: $28 million.
Home Care	Over 17 million hours of homemaking and support services;	One per cent change in hours of homemaking and support services: $4 million.
	Nine million nursing and health professional visits.	One per cent change in nursing and professional visits: $6 million.
Elementary and Secondary Schools	Almost two million average daily pupil enrolment.	One per cent enrolment change: $160 million in school boards' net expense.
University Students	327,000 full-time undergraduate and graduate students.	One per cent enrolment change: $26 million.
Ontario Works[1]	199,000 average annual caseload.	One per cent caseload change: $17 million.
Ontario Disability Support Program[1]	212,000 average annual caseload.	One per cent caseload change: $24 million.
College Students	151,000 full-time students.	One per cent enrolment change: $7 million in colleges' net expense.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.
Correctional System	Three million adult inmate days per year.	Average cost $160 per inmate per day. One per cent change in inmate days: $5 million.

[1] Based on 2005–06.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public-sector partners and the Province.

Program/Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians[1]	$76 million	Just over 22,000 physicians in Ontario including approximately 10,900 family doctors and 11,335 specialists.
Hospital Nurses[2]	$44 million	Over 53,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff[3]	$140 million	Over 195,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff[2]	$12 million	Almost 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[4]	$52 million	Over 64,000 public servants.

[1] Based on 2006–07 outlook.
[2] Based on 2005–06 actuals.
[3] One per cent increase in salary benchmarks in Grants for Student Needs based on 2006–07 school year.
[4] Based on 2005–06, reflects total compensation costs.

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2006, was $3.8 billion. The outstanding loans guaranteed and other contingencies amounted to $3.3 billion at March 31, 2006. A provision of $504 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in the 2005–06 Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio.
At March 31, 2006, there were $8.6 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2006, there were 94 claims outstanding against the Crown that were for amounts over $50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

SECTION II: FISCAL TABLES AND GRAPHS

The following pages provide details on Ontario's finances — both historical and projections over the medium term.

Key tables consist of:

- Medium-term Fiscal Plan and Outlook (2005–06 to 2008–09)
- 2006–07 Fiscal Outlook — In-year Change
- Details of Provincial Revenue (2002–03 to 2006–07)
- Details of Provincial Total Expense, by Ministry (2002–03 to 2006–07)
- Details of Infrastructure Expenditures (2005–06 to 2006–07)
- Ten-Year Review of Selected Financial and Economic Statistics (1997–98 to 2006–07).

Key graphs consist of:

- Composition of Revenue (2006–07)
- Composition of Total Expense (2006–07)
- Composition of Program Expense (2006–07).

Medium-term Fiscal Plan and Outlook ($ Billions) — Table 1

	Actual[1]	Outlook[2]		
	2005–06	2006–07	2007–08	2008–09
Revenue	84.2	87.0	90.0	93.2
Expense				
Programs	74.9	78.8	81.2	83.1
Interest on Debt	9.0	9.2	9.5	9.6
Total Expense	83.9	88.0	90.8	92.7
Surplus/(Deficit) Before Reserve	0.3	(0.9)	(0.7)	0.5
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	0.3	(1.9)	(2.2)	(1.0)
Investment in Capital Assets	2.0	2.6	2.7	2.7
Net Debt[3]	141.9	145.3	149.1	151.5
Accumulated Deficit[3]	109.2	111.1	113.3	114.4
Gross Domestic Product (GDP) at Market Prices	538.4	554.5	574.8	601.6
Net Debt as a per cent of GDP	26.4	26.2	25.9	25.2
Accumulated Deficit as a per cent of GDP	20.3	20.0	19.7	19.0

[1] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation.

[2] Second-quarter fiscal forecast as at September 30, 2006.

[3] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

2006–07 Fiscal Outlook — In-year Change ($ Millions)

Table 2

	Budget Plan 2006–07	Outlook[1] 2006–07	In-Year Change
Revenue	85,730	87,044	1,314
Expense			
Programs	77,651	78,789	1,138
Interest on Debt	9,429	9,204	(225)
Total Expense	87,080	87,993	913
Surplus/(Deficit) Before Reserve	(1,350)	(949)	401
Reserve	1,000	1,000	–
Surplus/(Deficit)	(2,350)	(1,949)	401

[1] Second-quarter fiscal forecast as at September 30, 2006.

Revenue ($ Millions) — Table 3

	2002–03	2003–04	2004–05	Actual 2005–06	Outlook[1] 2006–07
Taxation Revenue					
Personal Income Tax	18,195	18,301	19,320	21,041	22,321
Retail Sales Tax	14,183	14,258	14,855	15,554	16,165
Corporations Tax	7,459	6,658	9,883	9,984	9,585
Employer Health Tax	3,589	3,753	3,886	4,197	4,299
Ontario Health Premium	–	–	1,737	2,350	2,541
Gasoline Tax	2,306	2,264	2,277	2,281	2,303
Fuel Tax	682	681	727	729	742
Tobacco Tax	1,183	1,350	1,453	1,379	1,405
Land Transfer Tax	814	909	1,043	1,159	1,125
Electricity Payments-In-Lieu of Taxes	711	627	511	951	790
Other Taxes	429	347	283	292	283
	49,551	49,148	55,975	59,917	61,559
Government of Canada					
Canada Health and Social Transfer (CHST)	7,346	7,345	–	–	–
Canada Health Transfer (CHT)	–	–	5,640	7,148	7,619
Canada Social Transfer (CST)[2]	–	–	2,912	3,324	3,420
CHST Supplements	191	577	775	584	–
Social Housing	525	528	522	520	530
Infrastructure Programs	97	150	209	285	359
Wait Times Reduction Fund	–	–	242	243	467
Medical Equipment Funds	–	192	387	194	–
Other Government of Canada	735	1,101	1,195	953	1,643
	8,894	9,893	11,882	13,251	14,038
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,288	2,106	1,992	2,027	1,743
Liquor Control Board of Ontario	939	1,045	1,147	1,197	1,254
Ontario Power Generation Inc. and Hydro One Inc.	717	(17)	444	1,107	919
Other Government Enterprises	(2)	(64)	(5)	(23)	4
	3,942	3,070	3,578	4,308	3,920
Other Non-Tax Revenue					
Reimbursements	1,111	1,206	1,241	1,295	1,358
Electricity Debt Retirement Charge	889	1,000	997	1,021	1,027
Vehicle and Driver Registration Fees	982	985	976	763	1,021
Power Sales	635	510	610	779	988
Other Fees and Licences	606	594	506	550	556
Liquor Licence Revenue	530	488	489	516	453
Net Reduction of Power Purchase Contract Liability	161	104	236	396	412
Sales and Rentals	560	532	352	465	969
Royalties	304	248	278	191	243
Miscellaneous Other Non-Tax Revenue	726	622	721	773	500
	6,504	6,289	6,406	6,749	7,527
Total Revenue	68,891	68,400	77,841	84,225	87,044

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Includes 2005 federal budget additional Early Learning and Child Care revenues of $272 million in 2005–06 and $254 million in 2006–07.

Total Expense

($ Millions)

Table 4

Ministry	2002–03	2003–04	2004–05	Actual 2005–06	Outlook[1] 2006–07
Agriculture, Food and Rural Affairs	666	843	799	865	880
One-Time and Extraordinary Assistance	18	64	601	282	192
Attorney General	1,103	1,231	1,209	1,291	1,301
Board of Internal Economy	146	196	145	150	169
Children and Youth Services	2,457	2,660	2,851	3,330	3,279
Citizenship and Immigration	55	55	64	93	91
Community and Social Services	5,844	5,990	6,379	6,737	7,070
Community Safety and Correctional Services	1,713	1,704	1,749	1,767	1,887
Culture	373	327	344	475	366
Democratic Renewal Secretariat	–	–	2	2	10
Economic Development and Trade	104	89	84	202	353
Education	345	352	368	418	446
School Boards[2]	8,739	9,400	10,251	10,886	11,219
Teachers' Pension Plan (TPP)	238	235	240	295	408
Energy	190	169	194	207	242
Environment	250	265	307	275	302
Executive Offices	20	24	19	19	19
Finance	1,082	1,229	1,067	1,034	1,167
Interest on Debt	9,694	9,604	9,368	9,019	9,204
Community Reinvestment Fund/Ontario Municipal Partnership Fund	622	651	626	714	731
Community Reinvestment Fund One-Time Transition Funding	–	–	233	–	–
Electricity Consumer Price Protection Fund	665	253	–	–	–
Power Purchases	786	797	840	803	988
Contingency Fund	–	–	–	–	1,292
Government Services	331	467	898	562	811
Pensions and Other Employee Future Benefits	102	309	458	729	594
Health and Long-Term Care[3]	14,758	16,232	17,572	17,722	18,687
Hospitals[2,3]	11,241	12,830	13,759	14,816	16,463
Health Promotion	175	204	241	296	363
Intergovernmental Affairs	9	6	13	10	9
Labour	123	117	129	141	150
Municipal Affairs and Housing	656	635	772	928	693
Natural Resources	526	627	563	632	806
Northern Development and Mines	302	189	320	337	347
Office of Francophone Affairs	3	3	3	4	4
Public Infrastructure Renewal[4]	93	(35)	41	107	120
Contingency Fund	–	–	–	–	169
Research and Innovation	158	194	263	370	345
Secretariat for Aboriginal Affairs	18	15	21	50	21
Tourism	155	212	167	210	161
Training, Colleges and Universities	2,473	2,834	3,316	3,529	3,876
Colleges[2]	987	1,090	1,289	1,185	1,359
Transportation	1,554	1,816	1,831	2,203	2,093
Move Ontario	–	–	–	1,232	6
Year-End Savings	–	–	–	–	(700)
Total Expense	68,774	73,883	79,396	83,927	87,993

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

[3] The 2003–04 expenses for Health and Long-Term Care and Hospitals include $824 million of SARS-related and major one-time health costs. The 2006–07 figures reflect a change in the presentation of expense in the Health Sector to be consistent with the 2005–06 Public Accounts. This change in presentation does not affect total expense.

[4] Credit amounts relate to consolidation adjustments between the Ontario Realty Corporation and ministries to reflect net spending for the year.

Note: Expense amounts for 2002–03 to 2004–05 have been restated to reflect ministry restructuring that occurred during fiscal 2005–06. This restatement has no impact on total expense or the surplus/deficit.

2006–07 Infrastructure Expenditures ($ Millions) — Table 5

	Total Infrastructure Expenditures 2005–06 Actual	2006–07 Outlook[1]		
		Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure[2]	Total Infrastructure Expenditures
Transportation				
Transit	1,541	546	547	1,093
Highways	1,237	1,295	116	1,411
Other Transportation	494	2	60	62
Health				
Hospitals	296	305	–	305
Other Health	166	32	172	204
Education				
School Boards	949	–	1,110	1,110
Colleges	44	13	–	13
Universities	88	–	27	27
Water/Environment	342	10	226	236
Municipal and Local Infrastructure[3]	455	2	451	453
Justice	84	64	53	117
Other	468	290	232	522
Total[4]	6,164	2,559	2,994	5,553

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's Total Expenses in Table 4.

[3] Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

[4] Total expenditures include $36 million in flow-throughs in Investment in Capital Assets (for provincial highways) and $208 million in flow-throughs in Transfers and Other Expenditures in Infrastructure ($31 million in Transportation, $26 million in Water/Environment, $150 million in Municipal and Local Infrastructure, and $1 million in Other Infrastructure).

Ten-Year Review of Selected Financial and Economic Statistics ($ Millions)

	1997–98	1998–99	1999–00
Financial Transactions			
Revenue	52,782	56,050	65,042
Expense			
Programs[3]	48,019	49,036	53,347
Interest on Debt	8,729	9,016	11,027
Total Expense[3]	56,748	58,052	64,374
Surplus/(Deficit) Before Reserve	(3,966)	(2,002)	668
Reserve	–	–	–
Surplus/(Deficit)	(3,966)	(2,002)	668
Net Debt[4]	112,735	114,737	134,398
Accumulated Deficit[4]	112,735	114,737	134,398
Gross Domestic Product (GDP) at Market Prices	359,353	377,897	409,020
Personal Income	289,537	304,652	321,702
Population — July (000s)	11,228	11,367	11,506
Net Debt per Capita (dollars)	10,041	10,094	11,681
Personal Income per Capita (dollars)	25,787	26,801	27,959
Total Expense as a per cent of GDP	15.8	15.4	15.7
Interest on Debt as a per cent of Revenue	16.5	16.1	17.0
Net Debt as a per cent of GDP	31.4	30.4	32.9
Accumulated Deficit as a per cent of GDP	31.4	30.4	32.9

[1] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

[2] Second-quarter fiscal forecast as at September 30, 2006.

[3] Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

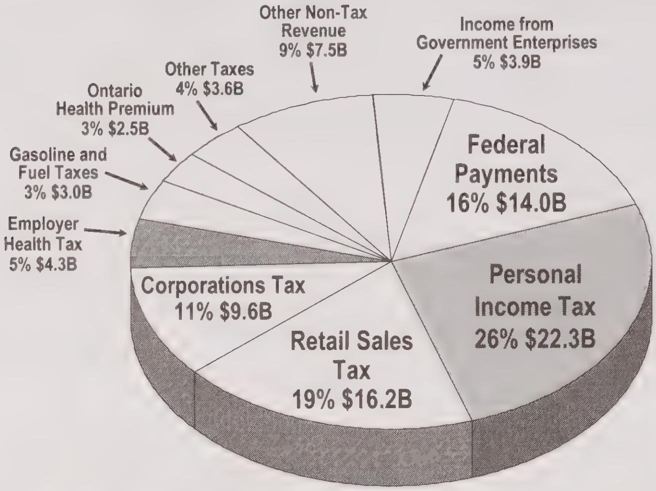
[4] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these broader public sector entities.

Sources: Ontario Ministry of Finance and Statistics Canada.

TABLE 6

2000–01	2001–02	2002–03	2003–04	2004–05	Actual[1] 2005–06	Outlook[2] 2006–07
66,294	66,534	68,891	68,400	77,841	84,225	87,044
53,519	55,822	59,080	64,279	70,028	74,908	78,789
10,873	10,337	9,694	9,604	9,368	9,019	9,204
64,392	66,159	68,774	73,883	79,396	83,927	87,993
1,902	**375**	**117**	**(5,483)**	**(1,555)**	**298**	**(949)**
–	–	–	–	–	–	1,000
1,902	**375**	**117**	**(5,483)**	**(1,555)**	**298**	**(1,949)**
132,496	**132,121**	**132,647**	**138,557**	**140,921**	**141,928**	**145,345**
132,496	**132,121**	**118,705**	**124,188**	**125,743**	**109,155**	**111,104**
440,759	453,701	477,528	491,859	517,306	538,386	554,529
347,653	361,187	370,418	383,197	400,287	419,230	438,685
11,685	11,898	12,102	12,260	12,407	12,541	12,696
11,339	11,104	10,961	11,302	11,358	11,317	11,448
29,752	30,357	30,608	31,256	32,263	33,429	34,553
14.6	14.6	14.4	15.0	15.3	15.6	15.9
16.4	15.5	14.1	14.0	12.0	10.7	10.6
30.1	29.1	27.8	28.2	27.2	26.4	26.2
30.1	29.1	24.9	25.2	24.3	20.3	20.0

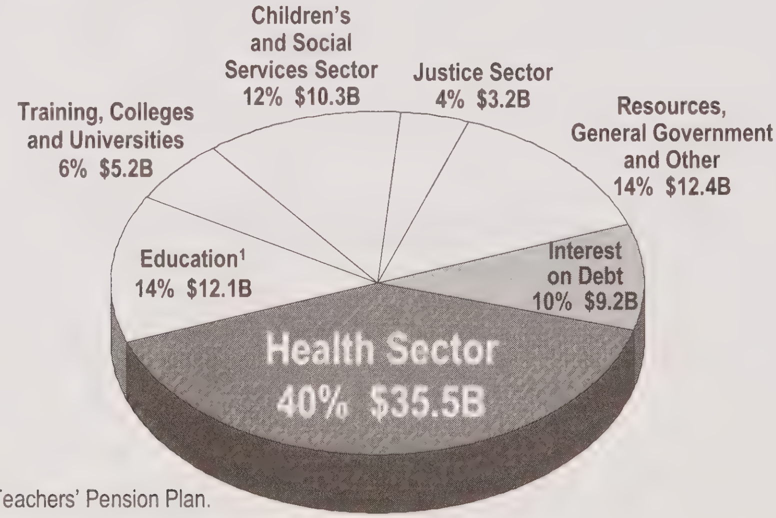
Composition of Revenue 2006–07



Note: Numbers may not add due to rounding.

Second-quarter fiscal forecast as at September 30, 2006.

Composition of Total Expense 2006–07

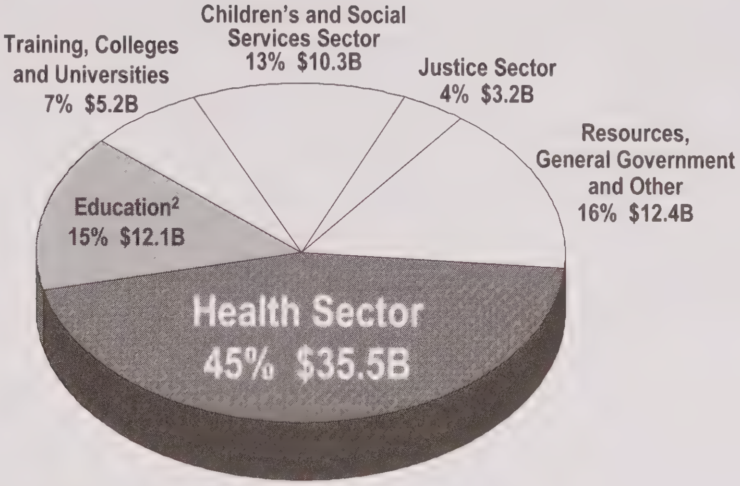


[1] Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Second-quarter fiscal forecast as at September 30, 2006.

Composition of Program Expense[1] 2006–07



[1] Program expense equals total expense minus interest on debt.

[2] Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Second-quarter fiscal forecast as at September 30, 2006.

ANNEX VIII

Economic Data Tables

ANNEX VIII
Economic Data Tables

Economic Data Tables (Cont'd)

(*Note*: Data in the tables may not add to totals due to rounding.)

TABLE 1: ONTARIO, GROSS DOMESTIC PRODUCT, 1992–2005

($ Billions)

	1992	1993	1994	1995	1996	1997	1998
Real GDP (chained $1997)	**307.2**	**310.2**	**328.5**	**340.1**	**343.8**	**359.4**	**376.7**
Consumption	175.3	177.7	183.1	186.6	190.9	200.1	207.1
Government	72.6	72.1	72.9	73.3	70.6	70.5	72.0
Residential Construction	17.1	15.6	15.9	13.7	15.0	17.2	16.8
Non-residential Construction	10.9	8.8	7.8	7.5	9.2	10.0	10.2
Machinery and Equipment	18.5	17.7	20.2	22.3	23.7	29.3	31.3
Exports	165.5	179.4	198.1	213.8	225.6	242.6	260.4
Imports	149.8	158.7	169.4	180.5	189.4	213.3	223.3
Nominal Gross Domestic Product	**286.5**	**293.4**	**311.1**	**329.3**	**338.2**	**359.4**	**377.9**

TABLE 1 (CONTINUED)

($ Billions)

	1999	2000	2001	2002	2003	2004	2005
Real GDP (chained $1997)	**405.0**	**429.1**	**436.8**	**450.0**	**455.5**	**469.5**	**482.4**
Consumption	216.6	227.2	232.9	242.1	249.7	257.4	266.4
Government	75.1	77.8	81.5	83.9	88.8	91.6	95.0
Residential Construction	18.8	20.1	22.1	24.2	25.0	25.9	26.1
Non-residential Construction	11.3	10.0	9.9	10.2	10.2	10.1	10.0
Machinery and Equipment	34.2	36.2	35.2	32.7	35.2	38.3	42.5
Exports	289.8	312.5	303.2	307.9	304.9	322.6	331.4
Imports	241.9	259.6	247.5	252.9	262.2	281.0	294.3
Nominal Gross Domestic Product	**409.0**	**440.8**	**453.7**	**477.5**	**491.9**	**517.3**	**538.4**

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 2: ONTARIO, GROWTH IN GROSS DOMESTIC PRODUCT, 1992–2005

(Per Cent Change)

	1992	1993	1994	1995	1996	1997	1998
Real GDP (chained $1997)	0.9	1.0	5.9	3.5	1.1	4.5	4.8
Consumption	1.4	1.3	3.1	1.9	2.3	4.8	3.5
Government	0.4	(0.7)	1.1	0.7	(3.7)	(0.1)	2.0
Residential Construction	4.5	(8.7)	2.0	(14.0)	9.6	14.5	(1.8)
Non-residential Construction	(12.9)	(18.7)	(12.2)	(2.7)	21.5	9.2	1.6
Machinery and Equipment	2.4	(4.4)	14.6	9.9	6.7	23.3	6.8
Exports	3.9	8.4	10.4	7.9	5.6	7.5	7.3
Imports	5.3	5.9	6.8	6.6	4.9	12.6	4.7
Nominal Gross Domestic Product	1.2	2.4	6.0	5.9	2.7	6.3	5.2

TABLE 2 (CONTINUED)

(Per Cent Change)

	1999	2000	2001	2002	2003	2004	2005
Real GDP (chained $1997)	7.5	5.9	1.8	3.0	1.2	3.1	2.8
Consumption	4.6	4.9	2.5	3.9	3.1	3.1	3.5
Government	4.4	3.6	4.8	3.0	5.8	3.1	3.7
Residential Construction	11.6	7.1	9.7	9.6	3.2	3.5	0.8
Non-residential Construction	11.4	(11.8)	(1.1)	3.4	0.2	(1.0)	(1.1)
Machinery and Equipment	9.4	5.9	(2.8)	(7.3)	7.8	8.9	11.0
Exports	11.3	7.8	(3.0)	1.6	(1.0)	5.8	2.7
Imports	8.4	7.3	(4.6)	2.2	3.7	7.2	4.7
Nominal Gross Domestic Product	8.2	7.8	2.9	5.3	3.0	5.2	4.1

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 3: Ontario, Selected Economic Indicators, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Retail Sales ($ Billions)	71.5	74.5	80.0	83.3	83.8	90.9	97.5
Housing Starts – Units (000s)	55.8	45.1	46.6	35.8	43.1	54.1	53.8
Personal Income ($ Billions)	253.8	256.1	260.7	271.4	276.3	289.5	304.7
Pre-tax Corporate Profits ($ Billions)	14.5	17.9	27.9	33.1	34.2	37.5	39.5
Consumer Price Index (1992 = 100)	100.0	101.8	101.8	104.3	105.9	107.9	108.9
Labour Force (000s)	5,529	5,544	5,548	5,589	5,680	5,776	5,877
Employment (000s)	4,933	4,938	5,014	5,100	5,167	5,291	5,453
Unemployment Rate (%)	10.8	10.9	9.6	8.7	9.0	8.4	7.2

Table 3 (continued)

	1999	2000	2001	2002	2003	2004	2005
Retail Sales ($ Billions)	104.6	111.5	114.3	121.0	125.1	129.1	135.2
Housing Starts – Units (000s)	67.2	71.5	73.3	83.6	85.2	85.1	78.8
Personal Income ($ Billions)	321.7	347.7	361.2	370.4	383.2	400.3	419.2
Pre-tax Corporate Profits ($ Billions)	49.7	54.4	49.3	60.6	56.9	64.7	64.4
Consumer Price Index (1992 = 100)	111.0	114.2	117.7	120.1	123.3	125.6	128.4
Labour Force (000s)	6,018	6,173	6,327	6,494	6,676	6,775	6,849
Employment (000s)	5,637	5,817	5,926	6,031	6,213	6,317	6,398
Unemployment Rate (%)	6.3	5.8	6.3	7.1	6.9	6.8	6.6

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 4: Ontario, Selected Economic Indicators, Annual Change, 1992–2005

(Per Cent Change)

	1992	1993	1994	1995	1996	1997	1998
Retail Sales	2.7	4.2	7.5	4.0	0.7	8.5	7.2
Housing Starts	5.6	(19.1)	3.3	(23.2)	20.2	25.6	(0.4)
Personal Income	2.5	0.9	1.8	4.1	1.8	4.8	5.2
Pre-tax Corporate Profits	(0.8)	23.1	55.8	18.7	3.3	9.9	5.2
Consumer Price Index	1.0	1.8	0.0	2.5	1.5	1.9	0.9
Labour Force	(0.3)	0.3	0.1	0.7	1.6	1.7	1.7
Employment	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1

Table 4 (continued)

(Per Cent Change)

	1999	2000	2001	2002	2003	2004	2005
Retail Sales	7.3	6.6	2.5	5.9	3.4	3.2	4.7
Housing Starts	24.9	6.4	2.5	14.1	1.9	(0.1)	(7.4)
Personal Income	5.6	8.1	3.9	2.6	3.4	4.5	4.7
Pre-tax Corporate Profits	25.9	9.3	(9.2)	22.7	(6.1)	13.7	(0.4)
Consumer Price Index	1.9	2.9	3.1	2.0	2.7	1.9	2.2
Labour Force	2.4	2.6	2.5	2.6	2.8	1.5	1.1
Employment	3.4	3.2	1.9	1.8	3.0	1.7	1.3

Sources: Statistics Canada, Ontario Ministry of Finance and Canada Mortgage and Housing Corporation.

Table 5: Ontario, Real Gross Domestic Product by Industry at Basic Prices, 2002–2005

	($1997 Chained Millions)			
	2002	2003	2004	2005
Goods Producing Industries	126,216	126,822	130,568	133,411
Primary	7,365	7,191	7,457	7,500
Utilities	10,208	9,891	10,031	10,297
Construction	21,362	22,326	22,331	22,659
Manufacturing[1]	87,281	87,414	90,749	92,956
Services Producing Industries	287,647	294,244	302,419	312,210
Wholesale Trade	27,286	28,554	30,035	32,213
Retail Trade	22,399	23,010	23,734	24,624
Transportation and Warehousing	16,637	16,735	17,358	17,944
Information and Cultural (incl. Telecommunications)	17,753	18,082	18,165	18,846
Finance, Insurance, Real Estate, Rental and Leasing	89,397	91,477	94,711	97,891
Professional and Administrative Services	31,911	32,796	33,313	33,854
Education	17,409	17,554	17,853	18,594
Health Care and Social Services	22,233	23,127	23,715	24,131
Arts, Entertainment and Recreation	3,834	4,010	4,018	4,010
Accommodation and Food	8,864	8,115	8,265	8,264
Other Services	9,843	9,919	10,049	10,202
Public Administration	20,222	21,006	21,396	21,844
Total Production	413,944	421,110	432,903	445,300

[1] See Table 7 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 6: Ontario, Growth in Real Gross Domestic Product by Industry at Basic Prices, 2002–2005

(Per Cent Change)

	2002	2003	2004	2005
Goods Producing Industries	**2.9**	**0.5**	**3.0**	**2.2**
Primary	(3.0)	(2.4)	3.7	0.6
Utilities	5.9	(3.1)	1.4	2.6
Construction	6.3	4.5	0.0	1.5
Manufacturing[1]	2.3	0.2	3.8	2.4
Services Producing Industries	**2.9**	**2.3**	**2.8**	**3.2**
Wholesale Trade	3.0	4.6	5.2	7.3
Retail Trade	7.3	2.7	3.1	3.8
Transportation and Warehousing	0.1	0.6	3.7	3.4
Information and Cultural (incl. Telecommunications)	2.7	1.8	0.5	3.7
Finance, Insurance, Real Estate, Rental and Leasing	2.4	2.3	3.5	3.4
Professional and Administrative Services	4.2	2.8	1.6	1.6
Education	2.0	0.8	1.7	4.2
Health Care and Social Services	2.5	4.0	2.5	1.8
Arts, Entertainment and Recreation	1.6	4.6	0.2	(0.2)
Accommodation and Food	1.0	(8.4)	1.8	0.0
Other Services	4.3	0.8	1.3	1.5
Public Administration	2.8	3.9	1.9	2.1
Total Production	**2.9**	**1.7**	**2.8**	**2.9**

[1] See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 7: ONTARIO, REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES IN SELECTED MANUFACTURING INDUSTRIES, 2002–2005

	($1997 Chained Millions)			
	2002	2003	2004	2005
Manufacturing	87,281	87,414	90,749	92,956
Food, Beverage and Tobacco Products	9,652	9,675	10,184	10,398
Textile, Clothing and Leather Products	1,865	1,726	1,616	1,445
Wood Products and Furniture	4,969	5,075	5,161	5,447
Paper Products and Printing	6,534	6,617	6,502	6,503
Chemical and Petroleum Products	8,614	8,631	9,227	8,946
Plastic and Rubber Products	6,014	6,009	6,121	6,054
Primary Metal and Fabricated Metal Products	12,961	13,072	13,471	13,634
Machinery	6,083	5,984	6,060	6,422
Electrical and Electronic Products	7,795	7,739	8,114	9,293
Transportation Equipment	18,484	18,399	19,675	20,309
Other Manufacturing	4,128	4,204	4,254	4,254

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 8: ONTARIO, GROWTH IN REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES IN SELECTED MANUFACTURING INDUSTRIES, 2002–2005

	2002	2003	2004	2005
	(Per Cent Change)			
Manufacturing	**2.3**	**0.2**	**3.8**	**2.4**
Food, Beverage and Tobacco Products	(1.0)	0.2	5.3	2.1
Textile, Clothing and Leather Products	(8.0)	(7.4)	(6.4)	(10.6)
Wood Products and Furniture	3.2	2.1	1.7	5.5
Paper Products and Printing	0.1	1.3	(1.7)	0.0
Chemical and Petroleum Products	6.5	0.2	6.9	(3.0)
Plastic and Rubber Products	8.7	(0.1)	1.9	(1.1)
Primary Metal and Fabricated Metal Products	6.1	0.9	3.1	1.2
Machinery	1.2	(1.6)	1.3	6.0
Electrical and Electronic Products	(3.3)	(0.7)	4.8	14.5
Transportation Equipment	2.2	(0.5)	6.9	3.2
Other Manufacturing	5.1	1.8	1.2	0.0

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 9: Ontario, Housing Market Indicators, 2002–2005

	2002	2003	2004	2005
New Housing Market				
Residential Construction, Current $ Millions	28,266	30,601	33,673	35,138
Per Cent Change	14.6	8.3	10.0	4.4
Real Residential Construction ($1997 Millions)	24,220	24,999	25,868	26,070
Per Cent Change	9.6	3.2	3.5	0.8
Housing Starts (Units)	83,597	85,180	85,114	78,795
Per Cent Change	14.1	1.9	(0.1)	(7.4)
Of which: Single-detached, urban areas (Units)	44,980	40,849	41,101	33,655
Per Cent Change	29.0	(9.2)	0.6	(18.1)
Multiple, urban areas (Units)	34,635	40,082	38,795	39,522
Per Cent Change	(2.2)	15.7	(3.2)	1.9
New Housing Price Index (1997 = 100)	114.9	120.0	126.7	132.6
Per Cent Change	3.7	4.4	5.6	4.6
Resale Market				
Home Resales (Units)	178,058	184,457	197,353	197,007
Per Cent Change	9.7	3.6	7.0	(0.2)
Average Resale Price ($)	210,901	226,824	245,230	263,042
Per Cent Change	9.1	7.5	8.1	7.3

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

Table 10: Selected Financial Indicators, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Interest Rates							
Bank Rate	6.8	5.1	5.8	7.1	4.5	3.5	5.1
Prime Rate	7.5	5.9	6.9	8.6	6.1	5.0	6.6
10-Year Government Bonds	8.1	7.2	8.4	8.1	7.2	6.1	5.3
Three-month T-Bills	6.6	4.8	5.5	6.9	4.2	3.3	4.7
Mortgage Rates							
5-Year Rate	9.5	8.8	9.5	9.2	7.9	7.1	6.9
1-Year Rate	7.9	6.9	7.8	8.4	6.2	5.5	6.5
Canadian Household Debt Burden[1]							
Consumer	21.3	21.3	22.7	23.5	24.6	26.2	27.7
Mortgage	59.2	62.2	65.3	65.4	67.1	68.5	69.0
Total	80.5	83.5	88.0	88.9	91.8	94.7	96.6

Table 10 (continued)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Interest Rates							
Bank Rate	4.9	5.8	4.3	2.7	3.2	2.5	2.9
Prime Rate	6.4	7.3	5.8	4.2	4.7	4.0	4.4
10-Year Government Bonds	5.6	5.9	5.5	5.3	4.8	4.6	4.1
Three-month T-Bills	4.7	5.5	3.8	2.6	2.9	2.2	2.7
Mortgage Rates							
5-Year Rate	7.6	8.3	7.4	7.0	6.4	6.2	6.0
1-Year Rate	6.8	7.9	6.1	5.2	4.8	4.6	5.1
Canadian Household Debt Burden[1]							
Consumer	28.3	29.7	30.3	31.1	32.7	34.1	36.7
Mortgage	68.6	67.1	66.7	69.0	71.7	75.3	79.6
Total	96.9	96.8	97.0	100.1	104.4	109.4	116.3

[1] Household debt as a share of personal disposable income.

Note: All data are annual averages.

Sources: Statistics Canada, Finance Canada and Bank of Canada.

TABLE 11: ONTARIO AND THE G7, REAL GROSS DOMESTIC PRODUCT GROWTH, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	0.9	1.0	5.9	3.5	1.1	4.5	4.8
Canada	0.9	2.3	4.8	2.8	1.6	4.2	4.1
France	1.9	(0.8)	1.6	2.0	1.1	2.3	3.4
Germany	1.8	(0.8)	2.7	2.0	1.0	1.9	1.8
Italy	0.6	(0.9)	2.3	2.9	0.6	2.0	1.3
Japan	1.0	0.2	1.1	1.9	2.6	1.4	(1.8)
United Kingdom	0.3	2.4	4.4	2.9	2.7	3.2	3.2
United States	3.3	2.7	4.0	2.5	3.7	4.5	4.2

TABLE 11 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	7.5	5.9	1.8	3.0	1.2	3.1	2.8
Canada	5.5	5.2	1.8	2.9	1.8	3.3	2.9
France	3.2	4.1	2.1	1.3	0.9	2.1	1.4
Germany	1.9	3.5	1.4	0.1	(0.2)	1.1	1.1
Italy	1.9	3.8	1.7	0.3	0.1	0.9	0.1
Japan	(0.2)	2.9	0.4	0.1	1.8	2.3	2.7
United Kingdom	3.0	4.0	2.2	2.0	2.5	3.1	1.8
United States	4.5	3.7	0.8	1.6	2.5	3.9	3.2

Sources: OECD, U.S. Bureau of Economic Analysis and Statistics Canada.

Table 12: Ontario and the G7, Employment Growth, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1
Canada	(1.0)	0.5	2.1	1.8	0.9	2.1	2.5
France	(0.5)	(1.3)	0.1	1.0	0.4	0.6	1.9
Germany	(1.3)	(1.1)	(0.6)	0.1	(0.4)	(0.4)	1.6
Italy	(0.7)	(4.5)	(1.6)	(0.6)	0.5	0.4	1.1
Japan	1.1	0.2	0.0	0.1	0.4	1.1	(0.7)
United Kingdom	(2.4)	(1.4)	0.7	0.9	0.9	1.7	0.9
United States	0.7	1.5	2.3	1.5	1.4	2.2	1.5

Table 12 (continued)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	3.4	3.2	1.9	1.8	3.0	1.7	1.3
Canada	2.6	2.5	1.2	2.4	2.4	1.8	1.4
France	2.1	2.7	1.9	0.6	0.1	0.0	0.3
Germany	0.0	0.5	0.3	(0.9)	(1.1)	0.0	1.6
Italy	1.2	1.9	2.0	1.5	1.0	1.5	0.7
Japan	(0.8)	(0.2)	(0.5)	(1.3)	(0.2)	0.2	0.4
United Kingdom	1.1	1.4	1.0	0.6	0.8	0.5	0.6
United States	1.5	2.5	0.0	(0.3)	0.9	1.1	1.8

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

TABLE 13: ONTARIO AND THE G7, UNEMPLOYMENT RATES, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	10.8	10.9	9.6	8.7	9.0	8.4	7.2
Canada	11.2	11.4	10.4	9.5	9.6	9.1	8.3
France	10.4	11.7	12.1	11.5	12.1	12.1	11.5
Germany	5.7	6.9	7.3	7.1	7.7	8.6	8.1
Italy	8.8	9.9	10.9	11.3	11.3	11.4	11.5
Japan	2.2	2.5	2.9	3.1	3.4	3.4	4.1
United Kingdom	10.0	10.4	9.5	8.6	8.1	7.0	6.2
United States	7.5	6.9	6.1	5.6	5.4	4.9	4.5

TABLE 13 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	6.3	5.8	6.3	7.1	6.9	6.8	6.6
Canada	7.6	6.8	7.2	7.7	7.6	7.2	6.8
France	10.8	9.4	8.7	9.0	9.8	10.0	9.9
Germany	7.5	6.9	6.9	7.6	8.7	9.2	9.1
Italy	11.1	10.2	9.2	8.7	8.6	8.1	7.8
Japan	4.7	4.7	5.0	5.4	5.3	4.7	4.4
United Kingdom	6.0	5.5	5.1	5.2	5.0	4.7	4.8
United States	4.2	4.0	4.7	5.8	6.0	5.5	5.1

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature.

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 14: Ontario and the G7, CPI Inflation Rates, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	1.0	1.8	0.0	2.5	1.5	1.9	0.9
Canada	1.5	1.8	0.2	2.2	1.6	1.6	0.9
France	2.5	2.2	1.7	1.8	2.1	1.3	0.7
Germany	5.1	4.4	2.7	1.7	1.2	1.5	0.6
Italy	5.0	4.5	4.2	5.4	4.0	1.9	2.0
Japan	1.7	1.3	0.7	(0.1)	0.0	1.7	0.7
United Kingdom	4.2	2.5	2.0	2.7	2.5	1.8	1.6
United States	3.0	3.0	2.6	2.8	3.0	2.3	1.6

Table 14 (continued)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	1.9	2.9	3.1	2.0	2.7	1.9	2.2
Canada	1.7	2.7	2.6	2.2	2.8	1.9	2.2
France	0.6	1.8	1.8	1.9	2.2	2.3	1.9
Germany	0.6	1.4	1.9	1.4	1.0	1.8	1.9
Italy	1.7	2.6	2.3	2.6	2.8	2.3	2.2
Japan	(0.3)	(0.8)	(0.8)	(0.9)	(0.3)	0.0	(0.3)
United Kingdom	1.3	0.8	1.2	1.3	1.4	1.3	2.0
United States	2.2	3.4	2.8	1.6	2.3	2.7	3.4

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 15: G7, Exchange Rates, 1992–2005

(Foreign Currency per Canadian Dollar)

	1992	1993	1994	1995	1996	1997	1998
Euro[1]	–	–	–	–	–	–	–
France	4.380	4.390	4.066	3.637	3.752	4.211	3.968
Germany	1.292	1.282	1.188	1.044	1.104	1.251	1.183
Italy	1,019.6	1,219.8	1,180.7	1,186.9	1,131.6	1,228.5	1,168.2
Japan	104.8	86.2	74.8	68.5	79.8	87.3	87.8
United Kingdom	0.471	0.517	0.478	0.462	0.470	0.441	0.407
United States	0.827	0.775	0.732	0.729	0.733	0.722	0.674

Table 15 (continued)

(Foreign Currency per Canadian Dollar)

	1999	2000	2001	2002	2003	2004	2005
Euro[1]	0.631	0.730	0.721	0.674	0.632	0.618	0.663
France	4.139	4.787	4.730	–	–	–	–
Germany	1.234	1.427	1.410	–	–	–	–
Italy	1,222.5	1,412.4	1,396.6	–	–	–	–
Japan	76.3	72.6	78.4	79.7	82.7	83.1	90.6
United Kingdom	0.416	0.444	0.448	0.424	0.437	0.419	0.453
United States	0.673	0.673	0.646	0.637	0.714	0.768	0.825

[1] Introduced January 4, 1999.

Note: All data are annual averages.

Source: Bank of Canada.

TABLE 16: ONTARIO, INTERNATIONAL MERCHANDISE EXPORTS[1] BY MAJOR COMMODITY[2], 2005

	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	72,769	40.4
Machinery and Mechanical Appliances	19,433	10.8
Electrical Machinery and Equipment	10,062	5.6
Non-ferrous Metals and Allied Products	8,202	4.6
Plastics and Plastic Articles	7,354	4.1
Pulp; Paper and Allied Products	5,346	3.0
Precious Metals, Stones and Coins	4,927	2.7
Prepared Foodstuffs, Beverages and Tobacco	4,822	2.7
Furniture and Fixtures, Signs, Prefabricated Buildings	4,798	2.7
Iron and Steel	3,790	2.1
Mineral Products	3,786	2.1
Other Chemical Products	3,694	2.1
Articles of Iron and Steel	3,437	1.9
Wood and Wood Products	3,032	1.7
Pharmaceutical Products	2,960	1.6
Scientific, Professional and Photo Equipment, Clocks	2,454	1.4
Rubber and Rubber Articles	2,005	1.1
Inorganic Chemicals; Chemical Elements and Compounds	1,884	1.0
Vegetable Products; Fats and Oils	1,826	1.0
Live Animals; Animal Products	1,553	0.9
Organic Chemicals	1,427	0.8
Textiles and Textile Articles	1,296	0.7
Articles of Stone, Cement, Ceramic and Glass	1,219	0.7
Aircraft, Spacecraft and Parts	1,099	0.6
Printed Matter	766	0.4
Hides, Leather, Travel Goods and Furs	359	0.2
Apparel and Clothing Accessories	341	0.2
Toys, Games and Sports Equipment	327	0.2
Railway, Rolling Stock and Parts	294	0.2
Other Textile and Clothing Articles	243	0.1
Miscellaneous Articles; Works of Art	208	0.1
Ships, Boats and Floating Structures	56	0.0
Footwear	25	0.0
Headgear, Umbrellas, Artificial Flowers	22	0.0
Other Commodities[3]	4,298	2.4
Total Exports	180,113	100.0

[1] Domestic exports exclude re-exports.

[2] Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

[3] Other Commodities includes special transactions.

Source: Industry Canada.

TABLE 17: ONTARIO, INTERNATIONAL MERCHANDISE IMPORTS BY MAJOR COMMODITY[1], 2005

	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	50,984	22.3
Machinery and Mechanical Appliances	40,415	17.7
Electrical Machinery and Equipment	24,633	10.8
Plastics and Plastic Articles	9,512	4.2
Scientific, Professional and Photo Equipment, Clocks	8,300	3.6
Other Chemical Products	8,059	3.5
Non-ferrous Metals and Allied Products	7,255	3.2
Mineral Products	7,081	3.1
Pharmaceutical Products	6,535	2.9
Prepared Foodstuffs, Beverages and Tobacco	5,970	2.6
Iron and Steel	5,358	2.3
Vegetable Products; Fats and Oils	4,484	2.0
Articles of Iron and Steel	4,346	1.9
Pulp; Paper and Allied Products	4,222	1.8
Furniture and Fixtures, Signs, Prefabricated Buildings	4,174	1.8
Organic Chemicals	3,907	1.7
Rubber and Rubber Articles	3,505	1.5
Precious Metals, Stones and Coins	3,477	1.5
Articles of Stone, Cement, Ceramic and Glass	2,927	1.3
Apparel and Clothing Accessories	2,724	1.2
Printed Matter	2,431	1.1
Textiles and Textile Articles	2,425	1.1
Toys, Games and Sports Equipment	2,313	1.0
Aircraft, Spacecraft and Parts	2,235	1.0
Live Animals; Animal Products	1,619	0.7
Wood and Wood Products	1,403	0.6
Inorganic Chemicals; Chemical Elements and Compounds	1,102	0.5
Railway, Rolling Stock and Parts	773	0.3
Hides, Leather, Travel Goods and Furs	760	0.3
Footwear	709	0.3
Miscellaneous Articles; Works of Art	694	0.3
Other Textile and Clothing Articles	542	0.2
Ships, Boats and Floating Structures	309	0.1
Headgear, Umbrellas, Artificial Flowers	158	0.1
Other Commodities[2]	3,205	1.4
Total Imports	228,549	100.0

[1] Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

[2] Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

TABLE 18: ONTARIO, INTERNATIONAL MERCHANDISE TRADE[1] BY MAJOR REGION, 2005

	Exports ($ Millions)	Per Cent of Total	Imports ($ Millions)	Per Cent of Total
United States	160,148	88.9	152,973	66.9
Western Europe	10,380	5.8	19,225	8.4
Eastern Europe	578	0.3	1,194	0.5
European Union	8,594	4.8	18,256	8.0
Asia	4,143	2.3	34,531	15.1
Oceania (Pacific)	787	0.4	713	0.3
Pacific Rim	4,609	2.6	33,777	14.8
Chinese Economic Area[2]	1,556	0.9	15,493	6.8
Caribbean	334	0.2	190	0.1
Latin America	2,402	1.3	15,673	6.9
Mexico	1,471	0.8	11,564	5.1
Middle East	813	0.5	882	0.4
Africa	524	0.3	781	0.3
Re-imports (Canada)	0	0.0	2,386	1.0
Total	180,113	100.0	228,549	100.0

[1] Data are customs based and do not include re-exports.

[2] Chinese Economic Area includes China, Hong Kong and Mongolia.

Source: Industry Canada.

TABLE 19: CANADA, INTERNATIONAL MERCHANDISE TRADE[1] BY MAJOR REGION, 2005

	Exports ($ Millions)	Per Cent of Total	Imports ($ Millions)	Per Cent of Total
United States	343,287	84.1	215,136	56.5
Western Europe	24,457	6.0	52,036	13.7
Eastern Europe	1,582	0.4	4,394	1.2
European Union	22,439	5.5	45,618	12.0
Asia	24,886	6.1	65,116	17.1
Oceania (Pacific)	1,863	0.5	2,342	0.6
Pacific Rim	25,051	6.1	64,424	16.9
Chinese Economic Area[2]	7,801	1.9	30,223	7.9
Caribbean	1,042	0.3	1,489	0.4
Latin America	6,503	1.6	25,088	6.6
Mexico	3,110	0.8	14,592	3.8
Middle East	2,586	0.6	4,660	1.2
Africa	1,924	0.5	6,942	1.8
Re-imports (Canada)	0	0.0	3,544	0.9
Total	408,133	100.0	380,748	100.0

[1] Data are customs based and do not include re-exports.

[2] Chinese Economic Area includes China, Hong Kong and Mongolia.

Source: Industry Canada.

Table 20: Ontario, Selected Demographic Characteristics, 1986–2006[1]

	Intercensal Estimates			Postcensal Estimates[2]					
	1986	1991	1996	2001	2002	2003	2004	2005	2006
Total Population (000s)	9,438	10,428	11,083	11,898	12,102	12,263	12,417	12,559	12,687
Annual Average Growth Over Preceding Year Shown (%)	1.4	2.0	1.2	1.4	1.7	1.3	1.3	1.1	1.0
Median Age (Years)	31.9	33.3	35.0	36.7	37.0	37.4	37.7	37.9	NA
Age Group Shares (%)									
0–4	6.8	7.0	6.8	6.0	5.8	5.6	5.5	5.4	NA
5–14	13.4	13.1	13.5	13.5	13.4	13.2	13.0	12.8	NA
15–24	17.1	14.5	13.2	13.4	13.4	13.5	13.5	13.5	NA
25–44	32.1	34.2	32.9	31.5	31.3	30.9	30.6	30.3	NA
45–64	19.8	19.6	21.3	23.2	23.6	24.1	24.7	25.2	NA
65–74	6.5	7.0	7.3	7.0	6.9	6.9	6.9	6.8	NA
75+	4.2	4.6	5.0	5.6	5.7	5.8	5.9	6.0	NA
Total Fertility Rate[3]	1.6	1.7	1.6	1.5	1.5	1.5	1.5	NA	NA
Life Expectancy at Birth (Years)[3]									
Female	80.0	80.8	81.3	82.1	82.2	82.4	NA	NA	NA
Male	73.7	75.0	75.9	77.5	77.7	77.8	NA	NA	NA
Families (000s)[4]	2,445	2,727	2,933	3,191	NA	NA	NA	NA	NA
Households (000s)[4]	3,222	3,638	3,925	4,219	NA	NA	NA	NA	NA

[1] Population figures are for July 1 (Census year).
[2] Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.
[3] Calendar-year data.
[4] Families and households are Census data.
Source: Statistics Canada.

Table 21: Ontario, Components of Population Growth, 1996–97 to 2005–06[1]

(Thousands)

	1996–97	1997–98	1998–99	1999–00	2000–01
Population at Beginning of Period	11,083	11,228	11,367	11,506	11,685
Births	136	133	131	131	128
Deaths	80	80	80	81	81
Immigrants	119	106	92	117	150
Net Emigrants[2]	27	26	24	24	23
Net Change in Non-permanent Residents	(3)	(3)	6	16	21
Interprovincial Arrivals	70	75	73	79	75
Interprovincial Departures	68	66	56	57	56
Population Growth During Period	145	139	139	179	212
Population at End of Period[3]	11,228	11,367	11,506	11,685	11,898
Population Growth (%)	1.3	1.2	1.2	1.6	1.8

Table 21 (continued)

(Thousands)

	2001–02	2002–03	2003–04	2004–05	2005–06
Population at Beginning of Period	11,898	12,102	12,263	12,417	12,559
Births	129	129	133	133	133
Deaths	81	83	86	88	91
Immigrants	153	110	128	130	133
Net Emigrants[2]	19	18	18	18	18
Net Change in Non-permanent Residents	17	22	4	(3)	(7)
Interprovincial Arrivals	70	64	57	59	64
Interprovincial Departures	65	64	64	71	86
Population Growth During Period	204	161	154	142	128
Population at End of Period[3]	12,102	12,263	12,417	12,559	12,687
Population Growth (%)	1.7	1.3	1.3	1.1	1.0

[1] Data are from July 1 to June 30 (Census year).
[2] Net Emigrants = Emigrants plus net temporary emigrants minus returning emigrants.
[3] The sum of the components does not equal the total change in population due to residual deviation.
Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

Table 22: Ontario, Labour Force, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Labour Force (000s)	5,529	5,544	5,548	5,589	5,680	5,776	5,877
Annual Labour Force Growth (%)	(0.3)	0.3	0.1	0.7	1.6	1.7	1.7
Participation Rate (%)							
Male	75.1	74.3	73.4	72.7	72.6	72.8	72.5
Female	59.9	59.4	58.8	58.6	58.9	59.0	59.6
Share of Labour Force (%)							
Youth (15–24)	18.1	17.3	16.8	16.4	16.2	15.9	15.8
Older Workers (45+)	27.4	28.1	28.8	29.1	29.5	30.2	30.7

Table 22 (continued)

	1999	2000	2001	2002	2003	2004	2005
Labour Force (000s)	6,018	6,173	6,327	6,494	6,676	6,775	6,849
Annual Labour Force Growth (%)	2.4	2.6	2.5	2.6	2.8	1.5	1.1
Participation Rate (%)							
Male	73.1	73.3	73.4	73.6	74.3	74.1	73.5
Female	60.3	61.0	61.4	62.0	63.0	63.0	62.7
Share of Labour Force (%)							
Youth (15–24)	16.1	16.4	16.3	16.4	16.3	16.2	15.9
Older Workers (45+)	31.4	32.0	32.6	33.4	34.7	35.4	36.1

Source: Statistics Canada.

TABLE 23: ONTARIO, EMPLOYMENT, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Total Employment (000s)	4,933	4,938	5,014	5,100	5,167	5,291	5,453
Male	2,658	2,673	2,714	2,761	2,791	2,870	2,936
Female	2,275	2,265	2,300	2,339	2,376	2,421	2,518
Annual Employment Growth (%)	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1
Net Job Creation (000s)	(84)	5	76	86	67	124	162
Private-sector Employment (000s)	3,229	3,200	3,262	3,375	3,440	3,508	3,649
Public-sector Employment (000s)	1,029	1,027	1,028	1,003	977	938	938
Self-employment (000s)	676	711	724	723	750	845	867
Manufacturing Employment (% of total)	17.3	16.6	16.8	17.2	17.6	17.7	18.0
Services Employment (% of total)	72.6	73.7	73.8	73.6	73.5	73.5	73.3
Part-time (% of total)	18.5	19.5	19.0	18.7	19.2	19.2	18.7
Average Hours Worked Per Week[1]	36.7	37.2	37.6	37.3	37.6	37.8	37.8

TABLE 23 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
Total Employment (000s)	5,637	5,817	5,926	6,031	6,213	6,317	6,398
Male	3,035	3,125	3,167	3,209	3,301	3,349	3,390
Female	2,602	2,692	2,759	2,822	2,912	2,967	3,008
Annual Employment Growth (%)	3.4	3.2	1.9	1.8	3.0	1.7	1.3
Net Job Creation (000s)	183	180	109	105	182	103	81
Private-sector Employment (000s)	3,784	3,930	4,052	4,116	4,249	4,278	4,330
Public-sector Employment (000s)	962	994	1,002	1,038	1,050	1,107	1,140
Self-employment (000s)	891	894	873	878	914	932	928
Manufacturing Employment (% of total)	18.4	18.5	18.0	18.1	17.6	17.4	16.6
Services Employment (% of total)	72.8	72.9	73.4	73.4	73.8	74.1	74.4
Part-time (% of total)	18.0	18.0	17.8	18.3	18.5	18.1	18.1
Average Hours Worked Per Week[1]	38.0	38.0	37.5	37.3	36.6	37.1	37.3

[1] Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.

Source: Statistics Canada.

Table 24: Ontario, Unemployment, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Total Unemployment (000s)	596	605	535	489	513	485	424
Unemployment Rate (%)	10.8	10.9	9.6	8.7	9.0	8.4	7.2
Male	11.9	11.5	10.0	8.9	9.0	8.1	7.2
Female	9.4	10.2	9.2	8.6	9.1	8.7	7.3
Toronto CMA[1]	11.3	11.3	10.4	8.6	9.1	7.9	7.0
Northern Ontario	12.8	12.7	11.7	10.0	10.7	10.4	11.1
Youth (15–24)	17.7	17.7	15.7	14.7	14.9	16.4	14.5
Older Workers (45+)	7.5	7.7	7.1	6.5	6.4	5.9	5.3
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	29.9	33.5	32.6	29.5	28.2	25.5	21.9
Youth (15–24)	29.6	28.1	27.5	27.7	26.8	31.0	31.6
Older Workers (45+)	19.2	19.7	21.2	21.6	20.8	21.4	22.6
Average Duration (weeks)[2]	23.4	26.9	27.7	25.9	24.8	26.5	23.2
Youth (15–24)	16.8	18.3	17.9	16.3	15.4	13.8	12.8
Older Workers (45+)	30.0	34.0	34.9	33.4	31.0	42.2	39.0

Table 24 (continued)

	1999	2000	2001	2002	2003	2004	2005
Total Unemployment (000s)	382	356	401	462	463	459	451
Unemployment Rate (%)	6.3	5.8	6.3	7.1	6.9	6.8	6.6
Male	6.2	5.6	6.5	7.4	7.1	6.9	6.6
Female	6.5	6.0	6.2	6.8	6.8	6.6	6.5
Toronto CMA[1]	6.1	5.5	6.3	7.4	7.7	7.5	7.0
Northern Ontario	9.1	8.3	8.0	8.1	7.4	7.8	7.0
Youth (15–24)	13.2	11.9	12.5	13.9	14.4	14.1	13.9
Older Workers (45+)	4.2	4.0	4.4	4.7	4.7	4.5	4.7
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	19.1	15.4	12.8	15.5	16.2	15.6	15.1
Youth (15–24)	33.7	33.7	32.2	32.1	33.9	33.9	33.5
Older Workers (45+)	20.8	22.4	22.9	22.0	23.5	23.4	25.9
Average Duration (weeks)[2]	21.3	17.7	15.3	16.3	17.0	16.1	16.1
Youth (15–24)	11.6	9.8	8.6	9.4	9.4	8.8	8.7
Older Workers (45+)	34.2	28.4	25.6	24.4	27.2	24.3	23.9

[1] CMA is Census Metropolitan Area. Toronto CMA includes the city of Toronto; the regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.

[2] Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

TABLE 25: ONTARIO, EMPLOYMENT INSURANCE (EI) AND SOCIAL ASSISTANCE, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
EI Regular Beneficiaries (000s)	322	294	228	181	180	151	131
EI Maximum Insurable Earnings ($)[1]	710	745	780	815	750	39,000	39,000
EI Maximum Weekly Entitlement ($)	426	425	429	448	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	4.20	4.20	4.30	4.20	4.13	4.06	3.78
Employee ($/$100 Insurable Earnings)	3.00	3.00	3.07	3.00	2.95	2.90	2.70
EI Total Benefits Paid ($ millions)[2]	5,845	5,406	4,511	3,796	3,653	3,436	3,141
EI Premiums Paid ($ millions)[2]	7,353	7,567	8,067	7,929	7,582	8,173	7,679
Social Assistance Caseload (000s)[4]	608	660	673	660	599	568	529

TABLE 25 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
EI Regular Beneficiaries (000s)	110	101	122	136	142	136	132
EI Maximum Insurable Earnings ($)[1]	39,000	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Entitlement ($)	413	413	413	413	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	3.57	3.36	3.15	3.08	2.94	2.77	2.73
Employee ($/$100 Insurable Earnings)	2.55	2.40	2.25	2.20	2.10	1.98	1.95
EI Total Benefits Paid ($ millions)[2]	3,051	2,787	3,524	4,328	4,342	4,429	4,325
EI Premiums Paid ($ millions)[2]	7,614	7,671	7,477	7,392	7,219	6,711[3]	6,947[3]
Social Assistance Caseload (000s)[4]	479	436	408	411	413	418	431

[1] Effective January 1, 1997, the maximum weekly insurable earnings of $750 was eliminated and replaced with an annual maximum set at $39,000.

[2] Employment Insurance benefit payments are on a cash basis; premiums are paid on an accrual basis.

[3] Premiums paid in 2004 and 2005 are Ontario Ministry of Finance estimates.

[4] The number of social assistance cases from 1998 to 2005 includes recipients of the Ontario Works program, the Ontario Disability Support Program, Temporary Care Assistance and the Assistance for Children with Severe Disabilities program. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources and Social Development Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

Table 26: Ontario, Labour Compensation, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Average Weekly Earnings ($)[1]	598.80	612.33	628.16	634.17	649.55	663.73	672.67
Increase (%)	3.9	2.3	2.6	1.0	2.4	2.2	1.3
CPI Inflation (%)	1.0	1.8	0.0	2.5	1.5	1.9	0.9
AWE Increase Less CPI Inflation (%)	2.9	0.5	2.6	(1.5)	0.9	0.3	0.4
AWE – Manufacturing ($)	716.55	739.20	761.95	770.80	794.09	821.28	841.78
Increase (%)	4.9	3.2	3.1	1.2	3.0	3.4	2.5
Increase Less CPI Inflation (%)	3.9	1.4	3.1	(1.3)	1.5	1.5	1.6
Wage Settlement Increases (%)[2]							
All Sectors	2.7	1.0	0.4	1.0	1.1	1.2	1.6
Public	2.6	0.5	0.1	0.2	0.3	0.7	1.3
Private	2.7	1.9	1.1	1.7	2.2	2.3	2.1
Person Days Lost Due to Strikes and Lockouts (000s)	578	371	488	477	1,915	1,904	1,061
Minimum Wage at Year-end ($/hour)	6.35	6.35	6.70	6.85	6.85	6.85	6.85

Table 26 (continued)

	1999	2000	2001	2002	2003	2004	2005
Average Weekly Earnings ($)[1]	683.70	700.12	712.88	726.21	734.78	748.10	768.59
Increase (%)	1.6	2.4	1.8	1.9	1.2	1.8	2.7
CPI Inflation (%)	1.9	2.9	3.1	2.0	2.7	1.9	2.2
AWE Increase Less CPI Inflation (%)	(0.3)	(0.5)	(1.3)	(0.1)	(1.5)	(0.1)	0.5
AWE – Manufacturing ($)	852.13	869.40	882.76	906.10	917.84	934.23	956.42
Increase (%)	1.2	2.0	1.5	2.6	1.3	1.8	2.4
Increase Less CPI Inflation (%)	(0.7)	(0.9)	(1.6)	0.6	(1.4)	(0.1)	0.2
Wage Settlement Increases (%)[2]							
All Sectors	2.1	2.6	3.0	3.0	3.1	2.8	2.7
Public	1.4	2.7	2.9	2.9	3.5	3.1	2.7
Private	3.1	2.4	3.0	3.0	1.9	2.6	2.4
Person Days Lost Due to Strikes and Lockouts (000s)	651	650	672	1,511	495	487	403
Minimum Wage at Year-end ($/hour)	6.85	6.85	6.85	6.85	6.85	7.15	7.45

[1] Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS).

[2] Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

Table 27: Ontario, Employment by Occupation, 1994–2005

(Thousands)

	1994	1995	1996	1997	1998	1999
Management	504	544	535	546	550	546
Business, Finance and Administrative	979	982	981	974	1,010	1,031
Natural and Applied Sciences	275	304	295	327	354	398
Health	261	258	253	267	264	272
Social Science, Education, Government Service and Religion	428	398	400	403	422	442
Art, Culture, Recreation and Sport	147	142	149	149	156	169
Sales and Service	1,129	1,152	1,185	1,199	1,237	1,281
Trades, Transport and Equipment Operators	737	756	769	808	825	820
Primary Industry	147	142	141	143	138	152
Processing, Manufacturing and Utilities	407	423	459	477	496	526
Total	5,014	5,100	5,167	5,291	5,453	5,637

Table 27 (Continued)

(Thousands)

	2000	2001	2002	2003	2004	2005
Management	562	551	562	587	620	625
Business, Finance and Administrative	1,056	1,115	1,119	1,149	1,203	1,176
Natural and Applied Sciences	427	455	445	448	437	470
Health	280	291	321	332	345	346
Social Science, Education, Government Service and Religion	453	468	472	474	476	544
Art, Culture, Recreation and Sport	172	183	177	188	200	199
Sales and Service	1,342	1,359	1,393	1,457	1,435	1,448
Trades, Transport and Equipment Operators	835	850	867	890	899	910
Primary Industry	142	130	123	131	134	143
Processing, Manufacturing and Utilities	548	524	552	558	568	537
Total	5,817	5,926	6,031	6,213	6,317	6,398

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

Table 28: Ontario, Distribution of Employment by Occupation, 1994–2005

(Per Cent)

	1994	1995	1996	1997	1998	1999
Management	10.0	10.7	10.4	10.3	10.1	9.7
Business, Finance and Administrative	19.5	19.2	19.0	18.4	18.5	18.3
Natural and Applied Sciences	5.5	6.0	5.7	6.2	6.5	7.1
Health	5.2	5.1	4.9	5.1	4.8	4.8
Social Science, Education, Government Service and Religion	8.5	7.8	7.7	7.6	7.7	7.8
Art, Culture, Recreation and Sport	2.9	2.8	2.9	2.8	2.9	3.0
Sales and Service	22.5	22.6	22.9	22.7	22.7	22.7
Trades, Transport and Equipment Operators	14.7	14.8	14.9	15.3	15.1	14.5
Primary Industry	2.9	2.8	2.7	2.7	2.5	2.7
Processing, Manufacturing and Utilities	8.1	8.3	8.9	9.0	9.1	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 28 (continued)

(Per Cent)

	2000	2001	2002	2003	2004	2005
Management	9.7	9.3	9.3	9.4	9.8	9.8
Business, Finance and Administrative	18.1	18.8	18.6	18.5	19.0	18.4
Natural and Applied Sciences	7.3	7.7	7.4	7.2	6.9	7.3
Health	4.8	4.9	5.3	5.3	5.5	5.4
Social Science, Education, Government Service and Religion	7.8	7.9	7.8	7.6	7.5	8.5
Art, Culture, Recreation and Sport	3.0	3.1	2.9	3.0	3.2	3.1
Sales and Service	23.1	22.9	23.1	23.5	22.7	22.6
Trades, Transport and Equipment Operators	14.4	14.3	14.4	14.3	14.2	14.2
Primary Industry	2.4	2.2	2.0	2.1	2.1	2.2
Processing, Manufacturing and Utilities	9.4	8.8	9.1	9.0	9.0	8.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

TABLE 29: ONTARIO, EMPLOYMENT BY INDUSTRY, 1996–2005

(Thousands)

	1996	1997	1998	1999	2000
Goods Producing Industries	1,368	1,404	1,457	1,533	1,576
Primary Industries	150	141	143	152	133
Agriculture	103	100	105	114	98
Manufacturing	907	935	981	1,035	1,075
Construction	261	280	285	298	323
Utilities	51	48	48	49	46
Services Producing Industries	3,799	3,887	3,996	4,103	4,241
Trade	774	791	799	838	877
Transportation and Warehousing	245	249	261	259	273
Finance, Insurance, Real Estate and Leasing	368	371	370	378	379
Professional, Scientific and Technical Services	313	347	371	393	415
Business, Building and Other Support	179	195	208	222	242
Educational Services	341	342	345	363	367
Health Care and Social Assistance	503	496	518	515	541
Information, Culture and Recreation	235	248	244	258	282
Accommodation and Food Services	311	318	335	337	337
Public Administration	288	279	284	286	281
Other Services	243	252	263	254	248
Total Employment	5,167	5,291	5,453	5,637	5,817

Table 29 (continued): Ontario, Employment by Industry, 1996–2005

(Thousands)

	2001	2002	2003	2004	2005
Goods Producing Industries	**1,575**	**1,603**	**1,630**	**1,639**	**1,637**
Primary Industries	119	112	113	113	128
Agriculture	84	77	82	79	93
Manufacturing	1,068	1,094	1,093	1,100	1,064
Construction	336	345	369	368	395
Utilities	51	53	55	58	50
Services Producing Industries	**4,352**	**4,428**	**4,584**	**4,678**	**4,761**
Trade	928	923	945	970	995
Transportation and Warehousing	275	279	290	295	289
Finance, Insurance, Real Estate and Leasing	389	393	415	436	452
Professional, Scientific and Technical Services	437	436	449	441	443
Business, Building and Other Support	241	247	264	278	283
Educational Services	358	369	376	390	428
Health Care and Social Assistance	559	582	612	635	626
Information, Culture and Recreation	303	298	289	303	301
Accommodation and Food Services	331	361	370	366	364
Public Administration	283	293	310	312	322
Other Services	248	247	264	254	257
Total Employment	**5,926**	**6,031**	**6,213**	**6,317**	**6,398**

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

TABLE 30: ONTARIO, GROWTH IN EMPLOYMENT BY INDUSTRY, 1996–2005

(Per Cent Change)

	1996	1997	1998	1999	2000
Goods Producing Industries	**1.6**	**2.6**	**3.8**	**5.2**	**2.8**
Primary Industries	0.0	(5.9)	1.6	5.9	(12.5)
Agriculture	(1.2)	(3.0)	5.0	8.1	(13.6)
Manufacturing	3.2	3.1	4.8	5.6	3.8
Construction	(2.8)	7.4	1.9	4.3	8.4
Utilities	1.6	(5.0)	0.2	1.9	(5.7)
Services Producing Industries	**1.2**	**2.3**	**2.8**	**2.7**	**3.4**
Trade	2.1	2.1	1.1	4.8	4.7
Transportation and Warehousing	1.3	1.6	4.8	(0.5)	5.2
Finance, Insurance, Real Estate and Leasing	2.1	0.7	(0.2)	2.2	0.2
Professional, Scientific and Technical Services	4.3	11.1	6.7	5.9	5.6
Business, Building and Other Support	4.8	9.0	6.7	7.1	8.8
Educational Services	(4.3)	0.4	0.8	5.2	1.0
Health Care and Social Assistance	(0.5)	(1.4)	4.5	(0.7)	5.1
Information, Culture and Recreation	1.2	5.6	(1.8)	5.9	9.2
Accommodation and Food Services	7.1	2.3	5.1	0.7	0.1
Public Administration	(4.5)	(3.2)	1.6	0.9	(1.8)
Other Services	2.6	3.3	4.6	(3.3)	(2.4)
Total Employment	**1.3**	**2.4**	**3.1**	**3.4**	**3.2**

Table 30 (continued): Ontario, Growth in Employment by Industry, 1996–2005

	(Per Cent Change)				
	2001	2002	2003	2004	2005
Goods Producing Industries	**(0.1)**	**1.8**	**1.7**	**0.6**	**(0.1)**
Primary Industries	(10.0)	(6.4)	1.0	0.2	13.2
Agriculture	(14.7)	(8.4)	6.3	(3.2)	18.0
Manufacturing	(0.6)	2.5	(0.1)	0.6	(3.3)
Construction	4.2	2.4	7.1	(0.4)	7.4
Utilities	11.0	3.1	3.0	7.2	(14.6)
Services Producing Industries	**2.6**	**1.8**	**3.5**	**2.1**	**1.8**
Trade	5.9	(0.6)	2.4	2.6	2.6
Transportation and Warehousing	0.7	1.4	4.1	1.5	(1.8)
Finance, Insurance, Real Estate and Leasing	2.6	1.1	5.6	5.0	3.8
Professional, Scientific and Technical Services	5.5	(0.2)	2.8	(1.6)	0.5
Business, Building and Other Support	(0.4)	2.5	7.0	5.0	1.8
Educational Services	(2.4)	3.2	1.8	3.7	9.8
Health Care and Social Assistance	3.4	4.0	5.1	3.8	(1.4)
Information, Culture and Recreation	7.3	(1.5)	(3.0)	4.7	(0.8)
Accommodation and Food Services	(1.9)	9.2	2.4	(1.1)	(0.4)
Public Administration	0.9	3.5	5.6	0.9	3.3
Other Services	(0.3)	(0.3)	7.1	(4.1)	1.3
Total Employment	**1.9**	**1.8**	**3.0**	**1.7**	**1.3**

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

TABLE 31: ONTARIO, EMPLOYMENT LEVEL BY ECONOMIC REGIONS, 1995–2005

(Thousands)

	1995	1996	1997	1998	1999	2000
Ontario	5,100	5,167	5,291	5,453	5,637	5,817
Region:*						
East	**673**	**675**	**686**	**723**	**749**	**758**
Ottawa (510)	498	506	513	539	552	572
Kingston-Pembroke (515)	176	169	173	184	197	186
Greater Toronto Area (530)[1]	**2,202**	**2,237**	**2,336**	**2,407**	**2,481**	**2,581**
Central	**1,182**	**1,202**	**1,222**	**1,267**	**1,311**	**1,358**
Muskoka-Kawarthas (520)	144	146	147	148	156	159
Kitchener-Waterloo-Barrie (540)	466	475	493	512	541	550
Hamilton-Niagara Peninsula (550)	571	580	582	607	614	649
Southwest	**683**	**697**	**702**	**711**	**741**	**760**
London (560)	283	278	282	285	298	307
Windsor-Sarnia (570)	270	278	276	284	293	302
Stratford-Bruce Peninsula (580)	129	141	144	142	149	152
North	**360**	**356**	**345**	**345**	**356**	**360**
Northeast (590)	247	246	240	241	246	249
Northwest (595)	114	110	105	104	110	111

TABLE 31 (CONTINUED)

(Thousands)

	2001	2002	2003	2004	2005
Ontario	5,926	6,031	6,213	6,317	6,398
Region:*					
East	**784**	**793**	**816**	**818**	**830**
Ottawa (510)	593	595	617	614	624
Kingston-Pembroke (515)	192	199	199	204	205
Greater Toronto Area (530)[1]	**2,665**	**2,721**	**2,799**	**2,854**	**2,912**
Central	**1,363**	**1,387**	**1,451**	**1,476**	**1,494**
Muskoka-Kawarthas (520)	152	155	175	180	170
Kitchener-Waterloo-Barrie (540)	559	579	597	611	637
Hamilton-Niagara Peninsula (550)	651	653	680	686	687
Southwest	**755**	**765**	**775**	**801**	**797**
London (560)	305	307	317	330	328
Windsor-Sarnia (570)	302	306	307	307	315
Stratford-Bruce Peninsula (580)	148	151	150	164	155
North	**359**	**365**	**371**	**367**	**364**
Northeast (590)	251	251	254	255	256
Northwest (595)	107	113	117	112	108

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

[1] Economic Region 530 closely matches the GTA, except that it excludes the city of Burlington.

Note: All figures are average annual employment levels.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 32: Ontario, Employment Level by Industry for Economic Regions, 2005

(Thousands)

	All Industries	Agriculture	Resources[1]	Manufacturing
Ontario	6,398	93	35	1,064
Region:				
East	830	12	2	78
Ottawa (510)	624	7	–	54
Kingston-Pembroke (515)	205	5	–	24
Greater Toronto Area (530)	2,912	9	3	487
Central	1,494	33	5	293
Muskoka-Kawarthas (520)	170	4	–	24
Kitchener-Waterloo-Barrie (540)	637	13	2	142
Hamilton-Niagara Peninsula (550)	687	16	2	127
Southwest	797	35	3	170
London (560)	328	12	–	60
Windsor-Sarnia (570)	315	9	–	81
Stratford-Bruce Peninsula (580)	155	14	2	30
North	364	4	20	36
Northeast (590)	256	3	15	24
Northwest (595)	108	–	5	12

Table 32 (continued)

(Thousands)

	Construction	Distributive[2]	Finance, Prof. & Mgmt.[3]	Info. Culture & Recreation[4]
Ontario	395	588	1,178	301
Region:				
East	47	57	143	34
Ottawa (510)	33	38	117	28
Kingston-Pembroke (515)	14	19	26	7
Greater Toronto Area (530)	172	291	679	157
Central	108	134	213	63
Muskoka-Kawarthas (520)	16	15	21	7
Kitchener-Waterloo-Barrie (540)	49	57	89	23
Hamilton-Niagara Peninsula (550)	43	62	103	33
Southwest	47	72	102	32
London (560)	20	29	54	11
Windsor-Sarnia (570)	18	24	33	15
Stratford-Bruce Peninsula (580)	10	19	15	5
North	20	33	41	15
Northeast (590)	15	22	31	11
Northwest (595)	4	12	10	5

TABLE 32 (CONTINUED)

(Thousands)

	Retail Trade	Personal Services[5]	Education
Ontario	747	621	428
Region:			
East	97	84	63
Ottawa (510)	73	61	45
Kingston-Pembroke (515)	25	23	18
Greater Toronto Area (530)	333	264	178
Central	175	161	104
Muskoka-Kawarthas (520)	25	18	13
Kitchener-Waterloo-Barrie (540)	72	66	45
Hamilton-Niagara Peninsula (550)	78	78	47
Southwest	91	74	53
London (560)	37	28	24
Windsor-Sarnia (570)	36	31	21
Stratford-Bruce Peninsula (580)	18	14	8
North	50	39	30
Northeast (590)	35	27	21
Northwest (595)	15	12	9

TABLE 32 (CONTINUED)

(Thousands)

	Health & Soc. Assistance	Public Administration
Ontario	626	322
Region:		
East	93	120
Ottawa (510)	64	104
Kingston-Pembroke (515)	29	16
Greater Toronto Area (530)	238	100
Central	150	54
Muskoka-Kawarthas (520)	20	7
Kitchener-Waterloo-Barrie (540)	56	23
Hamilton-Niagara Peninsula (550)	75	25
Southwest	92	25
London (560)	42	10
Windsor-Sarnia (570)	35	10
Stratford-Bruce Peninsula (580)	15	4
North	53	23
Northeast (590)	37	16
Northwest (595)	16	7

All figures are average annual employment levels.
Sub-regional figures may not add up to regional totals due to rounding.
Employment numbers under 1,500 are suppressed because they are statistically unreliable.
See standard deviation and GTA note for Table 31.
Industrial groupings based on North American Industry Classification System (NAICS).

[1] Includes Forestry, Fishing, Mining, Oil and Gas.

[2] Includes Transportation and Warehousing, Utilities and Wholesale Trade.

[3] Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.

[4] Includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.

[5] Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 33: Ontario Economic Regions[1]

East	
Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division
Central	
Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The counties of Brant, Haldimand and Norfolk, the Niagara Regional Municipality, the Hamilton Division and the city of Burlington in the Halton Regional Municipality
Greater Toronto Area[2]	
Toronto (530)	Toronto Division, the regional municipalities of Durham, York, Peel and Halton (excluding the city of Burlington)
Southwest	
London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey
North	
Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

[1] As defined by Statistics Canada, Standard Geographical Classification SGC 2001.
[2] Economic Region 530 closely matches the GTA, except that it excludes the city of Burlington.

ANNEX IX

How to Participate in the 2007 Pre-Budget Consultations

How to Participate in the 2007 Pre-Budget Consultations

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister of Finance is interested in hearing Ontarians' views on what more the government can do to ensure a productive economy and better services for people, while eliminating the deficit.

Information identifying the communities and locations that the Minister plans to visit will be posted at www.fin.gov.on.ca in November 2006. Individuals wishing to attend one of these consultations can call toll-free 1-800-263-7965 or 1-800-263-7776 TTY.

Below you will find additional information on how to participate in the 2007 pre-budget consultations.

Written Submissions

Individuals and organizations can mail, e-mail or fax submissions directly to the Minister of Finance.

Mailing Address
The Honourable Greg Sorbara, Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

E-mail Address: submissions@fin.gov.on.ca

Facsimile: 416-325-0969

Online Submissions

Individuals can also submit ideas for the 2007 Budget by completing a form on the Ministry of Finance website at www.fin.gov.on.ca. Click on the "Tell Us What You Think" item in the Hot Topics menu.

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Ontario

Ontario Economic Outlook and Fiscal Review

2007

The Honourable Dwight Duncan
Minister of Finance

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Ontario

Ontario Economic Outlook and Fiscal Review

2007

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Minister of Finance

Background Papers

General inquiries regarding the *2007 Ontario Economic Outlook and Fiscal Review, Background Papers* should be directed to:

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ANNEX IV: BORROWING AND DEBT MANAGEMENT

FOREWORD

The McGuinty government has a vision of improving public services while delivering balanced budgets. To realize this vision, Ontario must maintain its prudent and disciplined fiscal management in the face of external challenges. At the same time, it must continue investing in key priorities to improve Ontarians' standard of living and further enhance Ontario's ability to thrive in the global economy.

The government will implement its plan in the context of a strong Ontario economy that has proven resilient in an increasingly challenging global economic environment. However, Ontario's economic growth continues to be challenged by external factors such as high oil prices, the strong Canadian dollar and an increasingly competitive global economy. Recent softening in U.S. demand is creating further challenges.

The government is taking immediate action to strengthen Ontario's economic advantage and help manufacturing, forestry, agriculture and tourism weather economic challenges. In the recent Throne Speech, the government presented its commitment to a more prosperous Ontario. In this document, the McGuinty government is delivering on that commitment with measures to further strengthen Ontario's economic advantage by investing in people, businesses and communities. Annex I: *A Stronger Ontario* expands on the steps being taken.

Maintaining a competitive tax structure supports the economy's fundamental economic strengths. It also helps Ontario remain an advantageous place for business investment and job creation. More information can be found in Annex II: *Enhancing Ontario's Tax Competitiveness.*

The Ontario economy remains fundamentally strong and is on track to outperform the 2007 Ontario Budget forecast. However, private-sector economists predict that future economic growth prospects have been dampened by external challenges. The Province's fiscal situation has improved from an inherited $5.5 billion deficit in 2003–04 to a $2.3 billion surplus in 2006–07. Despite lower projections for economic growth, Ontario is on track to deliver five consecutive balanced budgets through 2009–10. As outlined in Annex III: *Ontario's Economic and Fiscal Outlook*, the McGuinty government has a solid plan to maintain a balanced budget while meeting the commitments of its 2007 *Moving Forward Together* campaign platform.

One of the benefits of balanced budgets is that they keep down future costs related to financing the debt. As a result of Ontario's fundamentally strong economy and demonstrated success in managing the Province's finances, its credit ratings are strong. Long-term public borrowing by the Province is summarized in Annex IV: *Borrowing and Debt Management.*

In the interests of improving transparency and accountability, the McGuinty government annually publishes estimated cost of expenditures made through the tax system. These are provided in Annex V: *Transparency in Taxation.*

Annex VI: *Economic Data Tables* provides extensive information about the recent performance of Ontario's economy.

The McGuinty government has an ambitious mandate. The 2008 Budget will take further steps towards implementing the plan to move Ontario forward. Part of this involves hearing firsthand from Ontarians. That is why the Minister of Finance will soon be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province. For more information, see Annex VII*: How to Participate in the 2008 Pre-Budget Consultations.*

ANNEX I:
A STRONGER ONTARIO

INTRODUCTION

The Ontario economy has proven remarkably strong and resilient in the face of an increasingly challenging global economic environment. Since 2002, higher oil prices, a high Canadian dollar and increased competition from newly industrializing countries have tested Ontario businesses' ability to compete and thrive. More recently, businesses have felt further pressure due to a slowing U.S. economy.

Despite these adverse developments, Ontario has seen continued strong job creation and business investment. Incomes are on the rise and the standard of living is one of the highest in the world. Ontario's economic growth continues to exceed expectations. Private-sector forecasts of Ontario's 2007 real gross domestic product (GDP) growth now average 2.0 per cent, up from 1.7 per cent at the time of the 2007 Ontario Budget.

The clearest sign of the Ontario economy's resilience has been its job creation record. Since October 2003, 417,900 net new jobs have been created. Over 95 per cent of these jobs were in occupations that paid on average over $19.50 per hour, including jobs in natural and applied sciences, management, social sciences, and education.

Still, challenges remain. This strong job creation has not occurred across all sectors of the economy, and many families and communities have been affected by job losses. While total service-sector jobs (private and broader public sectors) have expanded by 10.8 per cent since October 2003, employment in the goods-producing sector has contracted.

There are continued risks on the horizon. The weakened outlook for the U.S. economy, higher oil prices and the stronger Canadian dollar have reduced private-sector Ontario economic growth projections since the time of the 2007 Budget. This also means greater pressure on Ontario businesses over the next few years as they adapt to a much more challenging economic environment.

INVESTMENTS FOR A STRONGER ONTARIO

The Ontario Government is taking immediate action to further strengthen Ontario's economic advantage and help the manufacturing, forestry, agriculture and tourism industries weather economic challenges. The government's investment strategy builds on its five-point economic plan set out in the 2007 campaign platform, *Moving Forward Together.* In particular, the government is taking immediate action to keep taxes competitive, support innovation and accelerate its investment in infrastructure.

Measures announced in the *2007 Ontario Economic Outlook and Fiscal Review* will boost Ontario's ability to compete in the global economy by:

1. enhancing competitiveness through immediate tax reductions
2. investing in people and communities
3. investing in infrastructure.

In this document, the government is announcing more than $3 billion in new investments and tax reductions. These actions will boost Ontario employment by about 30,000 jobs over the next three years.

I. ENHANCING COMPETITIVENESS THROUGH IMMEDIATE TAX REDUCTIONS

The Province is proposing important new tax measures that support manufacturers and other sectors in Ontario challenged by current economic conditions. They would help Ontario manufacturers invest in their own businesses, creating and preserving jobs.

These new measures, totalling $1.1 billion in tax reductions over three years, include:

- eliminating Capital Tax on January 1, 2008 for corporations primarily engaged in manufacturing and resource activities
- providing a 21 per cent Capital Tax rate cut for all businesses retroactive to January 1, 2007, on the way to full elimination in 2010
- increasing the small business deduction threshold to $500,000 from $400,000, retroactive to January 1, 2007.

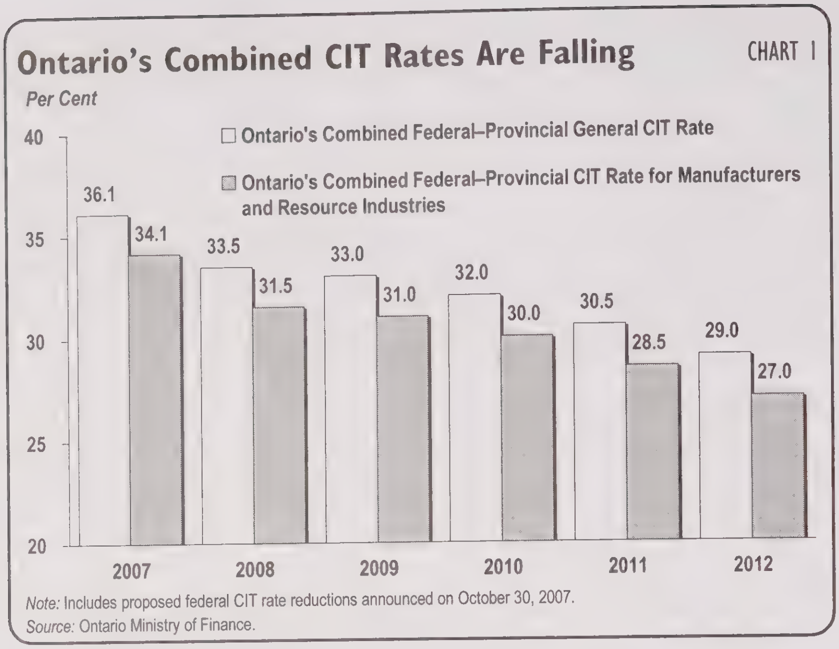
The measures proposed would provide immediate tax relief for businesses, particularly for Ontario's manufacturing and resource industries. This will help to further encourage business investment, strengthen manufacturing and enhance the province's competitive position. See Annex II: *Enhancing Ontario's Tax Competitiveness* for further details of these proposed tax cuts.

To assist manufacturers in acquiring new and advanced equipment and technologies, Ontario is paralleling the 2007 federal budget incentives related to accelerated capital cost allowances (CCA). A key incentive for manufacturers is the 50 per cent accelerated tax writeoff for investments in manufacturing and processing (M&P) machinery and equipment from March 19, 2007 until December 31, 2008. By paralleling the federal CCA measures, the Ontario Government will provide more than $400 million in tax relief over three years to manufacturers investing in the province. Ontario urges the federal government to quickly commit to extend this incentive for three more years to 2012.

The government has worked steadily to enhance the competitiveness of Ontario's tax system. Since 2004, it has implemented or announced more than $2 billion a year in tax cuts for business when fully phased in. This support includes accelerating Capital Tax elimination to July 1, 2010 and reducing high Business Education Tax (BET) rates by $540 million when fully implemented in 2014.

Ontario's current combined federal–provincial CIT rate for manufacturers and resource industries of 34.12 per cent is more than four percentage points below the average federal–state rate among its main trading partners, the U.S. Great Lakes States. Ontario's rate is also lower than the current corporate tax rates in Japan, Germany and Italy.[1] Once the proposed federal tax measures are fully implemented in 2012, Ontario's combined CIT rate for manufacturers and resource industries will be even lower at 27 per cent.

[1] International tax rates as reported in *KPMG's Corporate and Indirect Tax Rate Survey 2007.*



Successful economies rely on a competitive tax and regulatory climate that supports innovation and economic growth. Modern and flexible regulation that promotes public policy goals while reducing compliance burdens can unleash the growth potential of Ontario businesses of all sizes. Ontario will continue to bring forward ways to reduce the regulatory burden on businesses to help them thrive in today's competitive global economy.

RECENT ONTARIO TAX INITIATIVES TO LOWER BUSINESS COSTS

Since 2004, the government has introduced initiatives to reduce business costs and enhance the competitiveness of Ontario's tax system. They include:

- eliminating more than $1.3 billion in Capital Tax on July 1, 2010
- reducing high Business Education Tax rates by $540 million, when fully implemented in 2014
- providing over $400 million in tax relief with a temporary two-year accelerated CCA incentive for manufacturers and enhanced CCA for computer equipment, certain buildings, pipelines and clean energy generation
- moving towards federal administration of Ontario corporate taxes, which will save businesses up to $100 million per year in compliance costs and a further $90 million per year in Ontario corporate income tax
- introducing a new Apprenticeship Training Tax Credit (ATTC) that provides a 25 per cent (30 per cent for small businesses) refundable tax credit for new apprentices in designated trades.

Investing in Tourism and Film

Ontario's tourism industry has been challenged by the strong dollar. To meet this challenge, the McGuinty government will invest an additional $30 million this fiscal year to expand the Ministry of Tourism's successful promotion and marketing campaign in the domestic and international markets. This new funding will also more than double the funding available for economy-boosting festivals and special events to promote tourism in every corner of the province.

The government is proposing further steps to support growth and increase jobs in Ontario's film and television sector. Effective for labour expenditures incurred after December 31, 2007, the Ontario Film and Television Tax Credit would increase to 35 per cent from 30 per cent and the Ontario Production Services Tax Credit would increase to 25 per cent from 18 per cent. These proposed enhancements would provide an additional $50 million in financial support in 2008–09. The government will also be working with the film industry to explore ways of advancing financial support for producers to the start of a production.

CONTINUING INVESTMENTS FOR STRONG INDUSTRIES

More and more, global competitive challenges have prompted important sectors of Ontario's economy to boost their competitiveness through a transition to higher-value-added activities.

Ontario manufacturing, for instance, must continue to move to more technology-intensive and higher-value-added activities, and the service sector must continue to advance its higher-knowledge content.

Ontario has introduced strategic initiatives to help manufacturing and other key sectors make the transition to higher-value-added production, which leads to a greater ability to compete.

- The Ontario Government's auto strategy has helped leverage over $7 billion in total new automotive investments to strengthen Ontario as a leading-edge manufacturer.
- The Advanced Manufacturing Investment Strategy so far has generated over $600 million in additional new investments.
- Ontario has made available over $1 billion in support to help forest-products manufacturing transition to a more competitive position.
- Ontario is strengthening industries by helping them transition to green products and processes.
- Dr. Robert Rosehart was recently appointed as Northwestern Ontario Economic Facilitator to work with local stakeholders and governments at all levels to help this region build a successful future.
- On December 4, 2007, the Ontario Government announced the appointment of Jayson Myers, President of Canadian Manufacturers and Exporters, and Jim Stanford, Economist with the Canadian Auto Workers, as vice-chairs of the new Ontario Manufacturing Council. The council will advise the government on approaches to sustaining growth and increasing global competitiveness.
- On November 30, 2007, the Premier announced that David Ramsay, MPP for Timiskaming–Cochrane, will review the current competitive challenges and drivers facing Ontario's manufacturers, particularly small and medium-sized businesses.

Encouraging Innovation

Global competition and current market economic factors also make it imperative to encourage ideas to reach the marketplace so that Ontario's firms can grow and compete in the new global economy.

The Ontario Venture Capital Fund will help attract the capital and investment expertise needed to bring new discoveries to market faster so they can create high-value jobs in the knowledge economy.

- The government is investing $90 million in this fund and has signed a letter of intent with leading Canadian corporate and institutional investors for the $165 million first round of the fund.

- The government will seek additional private-sector investors to grow the fund in the future.

The economy of tomorrow will also be built on the foundations of Ontario's strengths in research and the ability of its knowledge workers to bring ideas to market. The Ministry of Research and Innovation will be making $50 million in additional strategic investments in 2007–08 to further strengthen Ontario's environment for world-class scientific research that leads to new discoveries, higher quality of life and new jobs. These investments will support opportunities for future growth in the knowledge economy.

As well, the government is proposing to extend the phase-out of the Labour-Sponsored Investment Fund (LSIF) tax credit to the end of the 2011 tax year, and increase the maximum qualifying investment from $5,000 to $7,500. These proposed measures will provide an estimated $38 million in additional financial support to the industry over three years.

SUPPORT FOR THE DEVELOPMENT AND GROWTH OF INNOVATIVE FIRMS

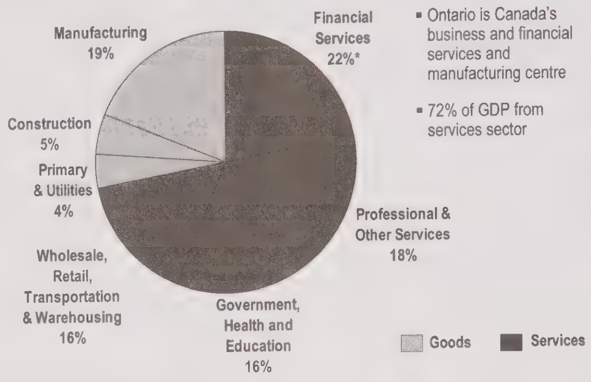
Through the Ministry of Research and Innovation, the government is already investing $1.7 billion over five years to 2009–10 in programs that will help place Ontario on the leading edge of the knowledge economy. This includes:

- $160 million for the Ideas to Market Strategy
  - $90 million for the new Ontario Venture Capital Fund
  - $46 million for the Market Readiness program to help startups become more "investor ready" by acquiring business management and entrepreneurial skills
  - $24 million for the Innovation Demonstration Fund to provide seed capital for bio-based environmental and alternative energy technologies
- $25 million for the Ontario Research Commercialization Program and $171 million for Ontario Centres of Excellence to accelerate commercialization of university research and innovative startups
- strategic investments in regional innovation centres across the province, including in Sarnia, Waterloo, Hamilton, Toronto, Kingston and Sudbury.

Ontario also provides over $400 million per year in tax relief for firms conducting research and development (R&D) in Ontario.

ONTARIO'S ECONOMY IS HIGHLY DIVERSIFIED AND INNOVATIVE

Structure of Ontario's Economy, 2006 CHART 2



- Ontario is Canada's business and financial services and manufacturing centre
- 72% of GDP from services sector

Includes owner-occupied housing.

Ontario's diversified economy — led by a wide range of high-value-added services and manufacturing — helps provide underlying resilience to global economic challenges. In a competitive global environment, the future prosperity of any economy will also depend on its ability to innovate. Ontario accounts for more than 50 per cent of the expenditures on R&D performed by Canadian industry.

Seventy-two per cent of Ontario's GDP is generated by the services sector, which includes financial services and professional services. Among North American cities, Toronto ranks third in financial-services employment, after New York and Chicago, and Ontario as a whole employs around 350,000 people.

Professional and other services on their own account for 18 per cent of the Ontario economy. This group, which involves well-paid, high-skill activities, includes professionals in engineering, legal, accounting and management consulting. It also includes information and communications services and entertainment and creative services — two sectors in which Ontario ranks as the third-largest jurisdiction in North America in terms of employment.

The province's manufacturing employment level ranks second in North America, after California. Ontario is the largest motor-vehicle assembler in North America, surpassing Michigan in each of the past three years, and is a base of North American auto manufacturing for U.S. and Asian auto companies. Ontario also benefits from a vibrant pharmaceutical industry that employed over 22,000 people in 2006.

In recent years, biotechnology has emerged as a strong player in Ontario's knowledge economy, with strengths in the biomedical, pharmaceutical, medical devices, agricultural-biotechnology and bioproducts fields. The Province leads the country in biotechnology revenues, employees and R&D spending. In 2005, about 5,200 people worked in biotechnology-related activities in Ontario, and innovative biotechnology firms generated revenues of $2.8 billion and invested about $650 million in R&D.

2. INVESTING IN PEOPLE AND COMMUNITIES

Helping Workers and Communities Adjust to Competitive Challenges

The manufacturing, forestry, agriculture and tourism sectors are facing competitive challenges, as are the families and communities that depend on them. Assisting workers and communities is a key part of the immediate plan for competitiveness.

Employment Ontario — the Province's nearly $1 billion annual jobs and training strategy launched in 2007 — provides coordinated training, apprenticeship and other labour market services.

As part of the Employment Ontario strategy, the Province will invest an additional $40 million this year in skills development. This focuses on help for Ontario workers and communities adjusting to current competitive challenges through additional funding for the Rapid Re-employment and Training Service. The new investment will assist workers in sectors such as manufacturing with training and other employment supports so they can move to growing sectors of the economy. It will also help increase the availability of skilled workers.

The Rapid Re-employment and Training Service provides immediate assistance to workers affected by large layoffs with:

- special teams to help individual workers develop re-employment action plans including skills assessment, resumé preparation, job search planning and identification of training required to take on a new career
- customized training, skills upgrading, literacy, job placement and job relocation services
- new placements and accelerated in-school learning for laid-off apprentices.

THE GOVERNMENT'S RAPID RE-EMPLOYMENT THREE-PART SERVICE PROMISE

This service:

- makes initial contact with the workers and employer within one hour of a public announcement of major downsizing or closure
- develops individual action plans, including training where appropriate, within 15 days of each initial assessment
- develops a Service Action Plan within 30 days of the initial response detailing the government's response and outlining the roles of local service providers.

Rapid re-employment teams have already provided immediate assistance in such communities as London, Smiths Falls, Windsor, Nipigon and Hamilton.

The government will provide an additional $5 million in 2007–08 to the Communities in Transition program. Through this program, the Ministry of Economic Development and Trade works with communities facing significant challenges, such as the loss of a major employer, to help them build a successful future.

Some segments of agriculture currently face challenges that hinder industry transformation to a more competitive state. Ontario is providing $150 million in new funding for cattle, hog and horticulture farmers to help them manage the effects of lower returns due to higher input costs, the stronger Canadian dollar and lower market prices. This funding will also support transitional and transformational initiatives to help strengthen competitiveness.

EMPLOYMENT ONTARIO

This program provides:

- nearly $1 billion annually for a comprehensive jobs and training strategy
- training, apprenticeship, employment counselling, job search supports and subsidized job placements
- 1,200 service providers in nearly 900 locations across the province
- services for newcomers in multiple languages.

In addition to Employment Ontario, Ontario is investing $160 million in 2007–08 to help newcomers settle, improve their language skills and find jobs through training programs.

Ontario's Skilled and Highly Educated Workforce: A Key Advantage

Ontario's skilled and highly educated workforce is a key economic advantage.

Ontario has a higher proportion of adults aged 25 to 64 with university, college or college-based apprenticeship credentials than any of the 30 OECD (Organization for Economic Co-operation and Development) countries, at 59 per cent in 2005.

Between 1997 and 2006, more than 90 per cent of the 1.2 million net new jobs gained by Ontarians went to those with a university or college education. Those with university degrees had an average annual employment growth rate of 5.1 per cent, followed by those with a postsecondary certificate or diploma at 3.1 per cent. The average annual employment growth rate for high school graduates was significantly lower, at 2.3 per cent.

The importance of a strong training system to competitiveness was underscored by a recent report by Colleges Ontario and a broad coalition of business associations, unions and students. The report stated that Ontario must make a concerted effort to address potential skills shortages as competitive pressures grow and a wave of retirements begins.

To build on this advantage, Ontario is continuing to implement the $6.2 billion Reaching Higher plan for postsecondary education.

REACHING HIGHER

The $6.2 billion Reaching Higher plan for postsecondary education has created more opportunities, more student financial assistance and greater quality in education:

- Increased grants for operating costs by over 40 per cent between 2003–04 and 2007–08, supporting the hiring of new faculty, increased student-faculty interaction and improved student services and libraries.
- 86,000 more students enrolled in colleges and universities since 2002–03, a 22 per cent increase.
- Graduate spaces to be expanded by 14,000 by 2009–10.
- The number of grants increased threefold — now assisting 120,000 students compared to 2003–04, including 60,000 upfront tuition grants for low- to middle-income students.
- Student debt capped — Ontario Student Opportunity Grants assist 80,000 students by forgiving student loans over $7,000 a year.

3. INVESTING IN INFRASTRUCTURE

To encourage economic activity, help municipalities and enhance Ontario's competitiveness, the government is investing an additional $1.4 billion to build critical infrastructure.

The Province will allocate some $500 million for transit projects and to assist municipal transit systems across Ontario in dealing with immediate demands. This will help increase ridership, address state of good repair, manage congestion and support the efficient movement of people and goods.

A $300 million investment will be provided for municipal infrastructure priorities — for projects that stimulate local economies such as roads, bridges, community facilities and water systems. Projects to be funded will be chosen through a competitive application process. Some of the available funding will be geared specifically to small, northern and rural communities to help bolster their local economies.

In addition, $100 million will be dedicated to priority MoveOntario 2020 projects — the $17.5 billion transit and transportation plan for the Greater Toronto Area (GTA). This will help municipal transit projects such as the purchase of railcars and buses and track expansion at GO Transit that have been identified as priorities by Metrolinx, formerly the Greater Toronto Transportation Authority.

Manufacturers and other business investors cite the quality of infrastructure as one of the most important factors in where to locate and where to invest. Investing in transit and transportation infrastructure helps communities and companies move products to markets and people to work. These investments also have the added benefit of decreasing congestion and reducing greenhouse gases and air pollutants.

These new investments are in addition to other funding support for municipalities, including the gas tax and the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF). The Ministry of Transportation will soon be announcing the allocation of the gas tax. In the near future, the Ontario Government, along with its federal and municipal partners, expects to announce the final round of funding under COMRIF. Municipal infrastructure investments represent another significant step forward in the Provincial-Municipal Fiscal and Service Delivery Review.

The government will continue to make progress on the Highway 407 East extension and the Windsor border because they are particularly important to the manufacturing sector.

CONTINUING INVESTMENTS IN INFRASTRUCTURE

Investment in Ontario by all levels of government increased by more than 50 per cent in real terms in 2006 compared to 1997. The most important factor behind this growth is the Ontario Government's ReNew Ontario infrastructure plan, the Province's comprehensive, long-term strategy that deals with infrastructure planning and investment.

- ReNew Ontario is a five-year strategic plan of over $30 billion in infrastructure investment, introduced in 2005, to upgrade and transform Ontario's infrastructure to meet the needs of the 21st century.
- ReNew Ontario makes a significant direct contribution to employment during the time the infrastructure is being built — some 400,000 jobs.

Ontario is also investing in rural infrastructure, with:

  - $188 million in 2005–06 provided under Move Ontario for roads and bridges
  - $85 million in the 2006–07 school year for school repairs and renovations under the Good Places to Learn initiative
  - $140 million in 2006–07 for key investments identified by local communities under the Rural Infrastructure Investment Initiative.

- The Ontario Government recently launched the MoveOntario 2020 initiative to continue to address transportation infrastructure challenges and further advance Ontario's priorities in reducing greenhouse gases and air pollutants.
  - This multi-year, $17.5 billion rapid transit action plan for the GTA and Hamilton will reduce congestion and make the region a more attractive place to invest.
  - The federal government is also encouraged to collaborate with the Ontario Government in funding MoveOntario 2020.
- Investments in Ontario's electricity infrastructure support and enhance the province's competitiveness and quality of life. The government's policies have initiated or supported one of the most ambitious near-term building programs in North America for new electricity generation.
  - About $13 billion in investments are being made in projects in progress for new and refurbished generation.
- The 2007 Budget provided an additional $390 million for infrastructure investments in higher education, supporting quality improvements that will provide students with the best possible learning environments. This supplemented significant ongoing investments under the Reaching Higher plan for postsecondary education.
- The Ontario Government reaffirms its commitment to moving forward on the Windsor border gateway project and building on the progress it has made so far.

The Province will announce further investments early in the new year.

FEDERAL GOVERNMENT HAS A ROLE TO PLAY

Ontario is doing its share. But Ottawa certainly has the financial means to do more.

Since 1997–98, the federal government has consistently reported budgetary surpluses and, in 2006–07, its surplus amounted to $13.8 billion. In its most recent *2007 Economic Statement*, the federal government projected that budgetary surpluses will continue for at least the next five years and forecast an underlying surplus for 2007–08 of $11.6 billion.

Supporting Business Investment in Ontario

While Ontario supports the federal government's efforts to phase in lower tax rates for businesses by 2012, Ottawa must do more now to support the manufacturing sector in Ontario.

Building on the success in attaining greater fairness for Ontarians from the federal government in immigration and social service funding, the Province will continue to fight for fairness by aggressively calling on the federal government to match Ontario's strategic investments — in particular, the $1.15 billion Next Generation Jobs Fund and the Advanced Manufacturing Investment Strategy.

Ontario is already providing immediate benefits to manufacturers by speeding up the elimination of the Capital Tax, as well as continuing to reduce high BET rates, investing in education and making strategic investments in the auto fund.

While the federal accelerated writeoff for M&P machinery equipment is a positive initiative, its short time frame limits the potential for substantial investment, as decisions to expand and invest are often planned years in advance. The federal government can further support investments in manufacturing by extending the temporary CCA incentive, which Ontario will parallel.

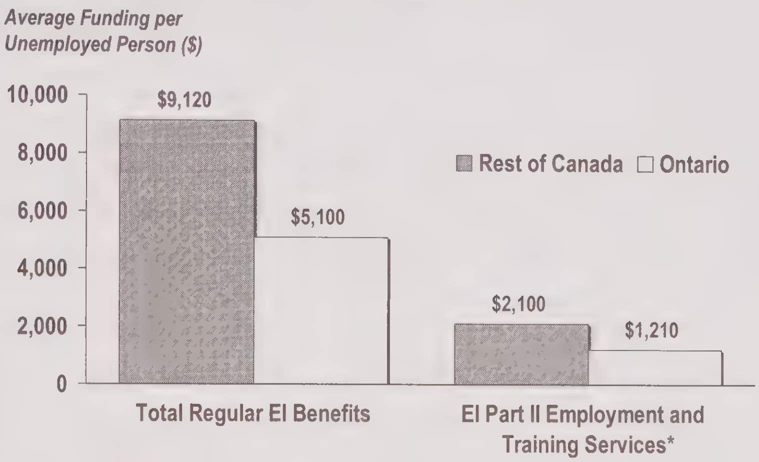
Ontario urges the federal government to quickly announce its intention to extend this incentive. Extending this incentive by three more years, to 2012, would provide manufacturers with a significant incentive to increase productivity and contribute to job creation.

Supporting Ontario's Workers

Ottawa can do more to assist workers in Ontario.

Ontario is also pressing for the federal government to address the inequities within the Employment Insurance (EI) program. The EI program has serious shortcomings that result in a significant share of Ontario's unemployed not receiving EI assistance when they need it most. If Ontario's unemployed workers received the average of EI benefits paid to unemployed workers in the rest of Canada, they would each get an additional $4,000 annually.

EI Funding Per Unemployed Person in Ontario and the Rest of Canada, 2006 CHART 3



* EI Part II allocation based on 2006–07 fiscal year.
Note: Rest of Canada includes provinces only. Estimates are rounded.
Sources: Ontario Ministry of Finance and Statistics Canada.

Employment Insurance should play a crucial role in helping workers cope with temporary and involuntary unemployment, as well as providing assistance to people as they move from industries facing challenges to industries with growing opportunities. However, the current EI system is not fulfilling this role for Ontario workers.

Employment Insurance regular benefits are inaccessible to many of Ontario's unemployed workers. As a result, many Ontario workers cannot depend on EI to provide them with the temporary income support they would need to search or train for new jobs if they became unemployed.

Employment Insurance Part II, the labour-market support and training component of the EI program, is also failing to meet the needs of Ontario workers. This is a particular problem for workers in Ontario's manufacturing sector, where some are experiencing layoffs due to economic challenges such as the high dollar and global competition.

KEY FACTS ABOUT EMPLOYMENT INSURANCE

- In 2006, only 30 per cent of unemployed persons in Ontario received regular EI benefits, compared with an average of 54 per cent in other provinces.
- Ontario's workers and employers contributed about 40 per cent of all EI premiums in 2006, but its unemployed were paid only 26 per cent of total regular EI benefits.
- In 2006, unemployed Ontarians accounted for 39 per cent of Canada's unemployed, but Ontarians received only 27 per cent of the national funding allocation for EI Part II.

Employment Insurance contributions by Ontarians largely exceed the benefits they receive. The EI Account had a cumulative surplus of $54 billion in 2006–07, which is largely due to excess contributions by Ontarians. Annual EI surpluses go directly into the federal Consolidated Revenue Fund. This practice clearly indicates that the EI program has not been managed in the interests of unemployed persons. The considerable cumulative EI surplus should be used to fund new programs for sectors experiencing challenges, such as the manufacturing sector.

The most recent federal Speech from the Throne committed the federal government to taking measures to improve the governance and management of the EI Account. Ontario welcomes this commitment and encourages the federal government to quickly address the shortcomings of the EI program.

The Ontario Government calls on the federal government to immediately:

- implement a new income-support program, funded from the $54 billion EI Account surplus, to provide long-tenure, permanently laid-off workers in the manufacturing and other challenged sectors with the support they need while they search or train for new jobs

- provide targeted resources for training and other employment supports that supplement the EI program for workers who are laid off in the manufacturing sector

- establish an arm's-length EI Account that is managed by a body independent of the federal government. This change would ensure that any surpluses in the EI Account are available to benefit workers instead of being consolidated with general revenues and spent by the federal government on other initiatives.

Supporting Municipal Investment in Infrastructure and Public Transit

Ottawa can do more to assist Ontario municipalities to make much-needed investments in public transit and infrastructure.

Ontario believes that the federal government has missed an opportunity to support investments in infrastructure and transit systems by ignoring repeated requests to provide $1.9 billion a year to municipalities in Ontario.

In June 2007, the Province launched the MoveOntario 2020 initiative to continue to address transportation infrastructure challenges and further advance Ontario's priorities in reducing greenhouse gases and air pollutants. This multi-year, $17.5 billion rapid transit action plan for the GTA and Hamilton will deliver jobs and investment by reducing congestion.

While Ontario continues to invest substantially in the quality of its infrastructure, it is imperative that the federal government invest in it as well. One example of a successful collaboration between the federal and Ontario governments is the joint commitment with U.S. partners to build a new border crossing at Windsor–Detroit.

Ontario is committed to improving its infrastructure, and encourages the federal government to fulfil its commitments to public transit and such projects as the Windsor border gateway as soon as possible.

Fulfilling Ontario's Fair Share

Since 2005, with the support of Ontarians across the province, the government has worked with the federal government to achieve greater fiscal fairness for Ontario. In its 2007 Budget, the federal government responded to these efforts by taking some measures to address fairness.

However, this work is not complete as issues remain that affect the fairness of federal transfers to Ontario.

The 2007 federal budget announced that the Canada Health Transfer (CHT) will be placed on an equal per-capita cash basis, but not until 2014. It is unacceptable that Ontarians should wait until 2014 for fairness in health transfers, when Ottawa clearly has the fiscal room to address the issue immediately. The delay in implementation will cost Ontarians $819 million in 2007–08 alone.

Accordingly, Ontario calls on the federal government to put the CHT on an equal per-capita basis immediately.

CONCLUSION

Ontario's economy has remained strong in the face of increasing global economic challenges. Its resilience is largely due to its highly skilled workforce, its diversified economy and the government's sound investments for a strong Ontario.

ANNEX II: ENHANCING ONTARIO'S TAX COMPETITIVENESS

ENHANCING ONTARIO'S BUSINESS TAX COMPETITIVENESS

A competitive tax system helps attract investment and jobs to Ontario. It also helps ensure that Ontario's businesses are able to compete and thrive as well as to improve the standard of living for all Ontarians.

ONTARIO'S PROPOSED NEW TAX INITIATIVES

- Eliminating Capital Tax for manufacturing and resource activities on January 1, 2008 — a full two and one-half years earlier than scheduled.
- Cutting Capital Tax rates for all businesses by 21 per cent retroactive to January 1, 2007 — a full two years earlier than scheduled.
- Extending the lower small business corporate income tax rate to more small businesses effective January 1, 2007.
- Increasing the film tax credit rates effective January 1, 2008.
- Extending the phase-out of the Labour-Sponsored Investment Fund tax credit and increasing the maximum eligible investment.
- Expanding the Land Transfer Tax Refund Program for First-time Homebuyers to include resale homes for agreements of purchase and sale after December 13, 2007.

The government proposes new tax initiatives that would provide more than $1.4 billion in tax relief over three years. Of this amount, $1.1 billion in new tax relief would go to business, particularly for those sectors feeling the impacts of the high Canadian dollar and the slower U.S. economy.

These measures are in addition to the business tax cuts that the government has announced since 2004 that will provide more than $2 billion annually when fully implemented. These include Capital Tax elimination on July 1, 2010 and $540 million in reductions in high Business Education Tax rates.

For manufacturing and resource industries, previously announced and proposed new measures would mean an estimated cumulative benefit of more than $1 billion in tax relief from 2007–08 to 2009–10. This would further enhance Ontario's tax competitiveness, provide support to the manufacturing sector, and stimulate economic growth through increased investment.

New Measures to Further Reduce and Eliminate Capital Tax

The government has already taken significant steps towards lowering and ultimately eliminating the Capital Tax burden for Ontario businesses. Further action is proposed to enhance the Province's competitive advantages in business taxation, particularly for manufacturing, including the auto sector, and resource industries.

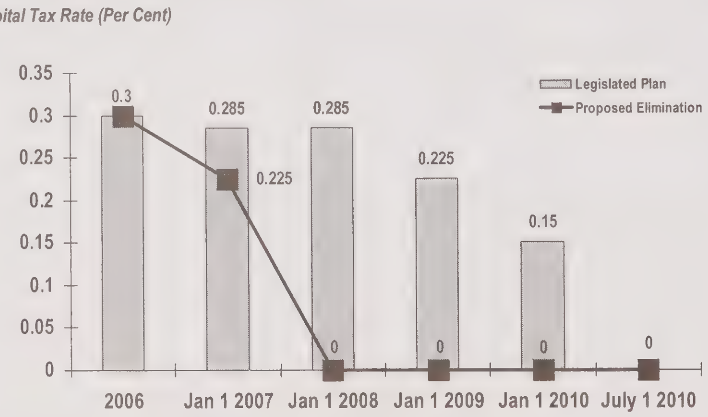
The government proposes to introduce legislation that would eliminate Capital Tax effective January 1, 2008 for Ontario companies primarily engaged in manufacturing or resource activities. The government also proposes to introduce legislation to provide a 21 per cent cut for all businesses effective January 1, 2007 by accelerating the Capital Tax rate cuts currently scheduled for January 1, 2009.

Under these two proposed measures, Ontario businesses would save $910 million over three years.

Eliminating Capital Tax for Manufacturing and Resource Activities

The proposed January 1, 2008 elimination of Capital Tax for manufacturing and resource activities would apply to corporations whose salaries and wages relating to manufacturing or processing, mining, logging, farming or fishing activities in Ontario represent 50 per cent or more of their total salaries and wages in Ontario.

Eliminating Capital Tax for Manufacturing and Resource Activities CHART 1



Note: The proposed elimination graph line is intended to illustrate the trend in Capital Tax rates as a result of elimination — it does not reflect statutory Capital Tax rates between the data points.
Source: Ontario Ministry of Finance.

For corporations whose salaries and wages in Ontario for these activities comprise less than 50 per cent, but more than 20 per cent of their total salaries and wages in Ontario, Capital Tax would be reduced proportionately on a straight-line basis. For example, a corporation whose

Ontario salaries and wages for these activities comprise 35 per cent of total Ontario salaries and wages would have one-half of its Capital Tax eliminated.

Capital Tax Rate Cut of 21 Per Cent for All Corporations

The government proposes to accelerate to January 1, 2007, the Capital Tax rate cuts currently scheduled for January 1, 2009, two years ahead of schedule.

The government has been working steadily to reduce and eventually eliminate the Capital Tax, which acts as a barrier to investment.

As previously legislated, the Capital Tax deduction will rise from $12.5 million to $15 million on January 1, 2008. Capital Tax will be fully eliminated on July 1, 2010.

The following table sets out the Capital Tax elimination schedule with the proposed new measures.

Ontario's Accelerated Capital Tax Elimination Plan with Proposed New Initiatives **Table 1**

		Rates (%)				
		Non-Financial Institutions		Financial Institutions		
				1st $400 Million of Taxable Capital	Taxable Capital Over $400 Million	
	Deduction ($ M)	M&P and Resources[1]	Other Corporations		Non-Deposit Taking	Deposit Taking
2004	5	0.3	0.3	0.6	0.72	0.9
Jan. 1, 2007	12.5	0.285	0.285	0.57	0.684	0.855
Jan. 1, 2007	12.5	**0.225**	**0.225**	**0.45**	**0.54**	**0.675**
Jan. 1, 2008	15	**Eliminated**	**0.225**	**0.45**	**0.54**	**0.675**
Jan. 1, 2009	15		0.225	0.45	0.54	0.675
Jan. 1, 2010	15		0.15	0.3	0.36	0.45
July 1, 2010	Legislated Accelerated Elimination Date					

21%
rate c

Shading denotes proposed Capital Tax initiatives.
Measures would be pro-rated for taxation years straddling the effective date.
[1] Primarily engaged in manufacturing or processing, mining, logging, farming or fishing activities in Ontario.

Expanding Eligibility for the Small Business Corporate Income Tax Rate

The government recognizes the important role of small businesses in job creation and economic growth. The government provides tax relief to assist small businesses with access to capital, to keep up with technological advancements and to find highly skilled employees. Currently, the small business deduction provides a lower Corporate Income Tax (CIT) rate of 5.5 per cent to Canadian-controlled private corporations (CCPCs) on the first $400,000 of active business income. The benefit of the small business deduction is gradually phased out on income earned by a CCPC between $400,000 and $1,128,519. The small business deduction currently provides almost $1.1 billion in tax relief to small corporations in Ontario.

The government proposes to further enhance support for small businesses by increasing the small business deduction threshold to $500,000 from $400,000, effective January 1, 2007. This would immediately extend the preferential small business CIT rate to the first $500,000 of business income. In addition, the small business deduction would be phased out once income reaches $1,500,000, rather than $1,128,519. The increase in the threshold would be pro-rated for taxation years straddling the effective date.

This measure would provide Ontario small businesses with $29 million of immediate tax relief. Over four years, the higher small business deduction threshold and upper taxable income limit would reduce taxes for small business by over $100 million. In particular, more than 20 per cent of this tax relief would go to small businesses in the manufacturing and resource industries.

Labour-Sponsored Investment Funds (LSIFs)

On September 30, 2005, following consultations with the LSIF industry, the government established a phase-out of the LSIF tax credit. The timetable of the phase-out allows investors who purchase LSIF shares to receive a provincial tax credit until the end of the 2010 tax year. The government also introduced amendments to investment requirements and special wind-down rules to provide LSIFs greater flexibility in managing their portfolios.

The government proposes to extend the phase-out of the LSIF tax credit by one year by:

- maintaining the 15 per cent tax credit rate until the end of the 2009 tax year
- lowering the rate to 10 per cent for the 2010 tax year
- lowering the rate to five per cent for the 2011 tax year
- eliminating the credit for tax years after 2011.

The government also proposes to increase the maximum investment that qualifies for the provincial tax credit from $5,000 to $7,500.

The proposed changes will provide an estimated $38 million in additional financial assistance to the industry over three years. These measures are intended to assist LSIFs in the development of their investment strategies and in providing continuing support to the portfolio of companies in which they have invested.

Enhancing Tax Support for Ontario's Film and Television Industry

The government is proposing further steps to support growth and job creation in the film and television sector in Ontario. Creative industries and creative people are a critical component of an innovative and knowledge-based economy.

The government proposes to increase the Ontario Film and Television Tax Credit (OFTTC) rate from 30 to 35 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010. The 10 per cent regional bonus would continue to be available for filming outside

the Greater Toronto Area and first-time producers would remain eligible for an enhanced rate of 40 per cent on the first $240,000 of labour expenditures.

The government also proposes to increase the Ontario Production Services Tax Credit (OPSTC) rate from 18 to 25 per cent for labour expenditures incurred after December 31, 2007 and before January 1, 2010.

The OFTTC is available to Ontario-based, Canadian-controlled corporations for eligible film and television productions. The OPSTC is available to Ontario-based corporations for foreign and domestic productions not claimed under the OFTTC. Effective January 1, 2005, the OFTTC was raised to 30 per cent from 20 per cent until December 31, 2009, and the OPSTC rate was raised to 18 per cent from 11 per cent until March 31, 2006. The 18 per cent rate for the OPSTC has since been extended until March 31, 2008.

The government will also be working with the film industry to explore ways of advancing financial support for producers to the start of a production.

Land Transfer Tax (LTT) Refund for All First-Time Homebuyers

In keeping with the government's commitment to help Ontarians who are starting out, it is proposed that the LTT Refund Program for First-time Homebuyers be expanded to include purchases of resale homes. This measure would be effective for agreements of purchase and sale entered into after December 13, 2007. As a result of this change, first-time homebuyers of newly constructed or resale homes would be able to receive a refund from the provincial government of up to $2,000 of the LTT paid.

Fiscal Impact Summary of Proposed Tax Measures ($ Millions) — **Table 2**

	2007–08	**2008–09**	**2009–10**
Cutting Capital Tax Rates and Eliminating Capital Tax for Manufacturing and Resource Activities	(340)	(425)	(145)
Increasing the Small Business Deduction Threshold	(29)	(26)	(27)
Labour-Sponsored Investment Funds (LSIFs)	(10)	(12)	(16)
Enhancing Film and Television Tax Credit Rates:			
Ontario Film and Television Tax Credit	(5)	(20)	(18)
Ontario Production Services Tax Credit	(5)	(30)	(26)
Land Transfer Tax Refund for All First-Time Homebuyers	(36)	(125)	(125)
Total	**(425)**	**(638)**	**(357)**

2007 TAX MEASURES TO SUPPORT JOBS AND PROSPERITY IN ONTARIO

Since the 2007 Ontario Budget, the government has implemented or is implementing the following initiatives to encourage job growth and prosperity for all Ontarians:

Personal Income Tax

- An increase in the lifetime capital gains exemption on farm or fishing property or small business shares from $500,000 to $750,000 will reduce taxes for individuals by about $18 million in 2007–08.
- An exemption for capital gains on gifts of publicly listed securities to private foundations will provide a benefit to donors of about $22 million in 2007–08.
- An increase in the age limit for maturing Registered Pension Plans and Registered Retirement Savings Plans, from 69 years of age to 71 years of age, will provide $20 million in benefits to taxpayers in 2007–08.
- The deductible portion of business-related meal expenses for truck drivers will be increased in stages from 50 per cent to 80 per cent by 2011.

Corporate Tax

- A temporary two-year accelerated capital cost allowance incentive for manufacturers and enhanced capital cost allowances for computer equipment, certain buildings, pipelines and clean energy generation, providing over $400 million in tax relief over three years to Ontario manufacturers.
- An additional Corporate Income Tax (CIT) deduction to support corporations that make donations of medicine to the developing world.
- A CIT and Corporate Minimum Tax exemption in respect of capital gains for gifts of publicly listed securities to private foundations.

Retail Sales Tax

- A retail sales tax (RST) exemption for bicycles costing $1,000 or less, bicycle helmets, and other bicycle safety equipment will save Ontarians $16 million in a full year.
- An RST exemption for nicotine replacement therapies will provide a benefit to Ontarians of $5 million in a full year.
- An RST exemption for Energy Star® household products including non-commercial refrigerators, dishwashers, clothes washers, freezers, dehumidifiers, room air conditioners, light bulbs and decorative light strings will save Ontarians $51 million in a full year.
- An expansion of the RST farm exemption to provide an additional benefit to farmers of $1 million annually.

ANNEX III: ONTARIO'S ECONOMIC AND FISCAL OUTLOOK

Section A: Introduction

This annex outlines Ontario's economic and fiscal outlook.

The government is on track to deliver five consecutive balanced budgets by 2009–10 while also fulfilling the commitments made in the 2007 election platform, *Moving Forward Together*. This will be achieved despite slower economic growth projections thanks to the government's prudent and disciplined approach to fiscal planning.

Section B: *Ontario's Economic Outlook* describes the Ministry of Finance's current planning projections and explains how these projections have changed since the 2007 Ontario Budget.

Section C: *Ontario's Fiscal Plan* outlines the government's medium-term fiscal plan covering the 2007–08 to 2009–10 fiscal years, and summarizes how the government will work to achieve its overall fiscal targets.

Section D: *Ontario's Revenue Outlook* outlines expected revenue performance in 2007–08 and current Ministry of Finance projections for 2008–09 and 2009–10; describes how those projections have changed since the 2007 Budget; and outlines potential risks to the outlook and associated sensitivities.

Section E: *Ontario's Expense Outlook* outlines planned expenses for 2007–08 to 2009–10 and outlines potential risks to the outlook and associated sensitivities.

Section F: *Details on Ontario's Finances* presents graphs and tables that provide useful information on the Province's finances.

Section B: Ontario's Economic Outlook

OUTLOOK FOR STRENGTHENING ONTARIO ECONOMIC GROWTH

Ontario Economic Outlook **Table 1**
(Per Cent)

	2003	2004	2005	2006	2007e	2008p	2009p	2010p
Real GDP Growth	1.4	2.5	2.9	2.1	1.9	1.8	2.4	2.8
Nominal GDP Growth	3.2	4.8	3.9	3.9	5.0	3.8	4.0	4.7
Employment Growth	3.0	1.7	1.3	1.5	1.6	1.2	1.3	1.4
CPI Inflation	2.7	1.9	2.2	1.8	1.8	1.4	2.0	2.0

e = estimate; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

This section outlines Ontario's current macroeconomic outlook, which is the basis for the fiscal plan. Ontario's economy is projected to grow at a modest pace in 2007 and 2008, and then strengthen over the following two years as it adjusts to the challenging global environment.

The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.9 per cent in 2007, 1.8 per cent in 2008, 2.4 per cent in 2009 and 2.8 per cent in 2010. In keeping with prudent fiscal practices, these projections are deliberately set below the average private-sector forecast in every year.

Over the 2002 to 2006 period, the resilient Ontario economy grew at a modest pace despite an increasingly challenging global economic environment. Oil prices increased from $26.10 US per barrel in 2002 to $66.10 US in 2006. Likewise, the Canadian dollar increased from 63.7 cents US in 2002 to 88.2 cents US in 2006. In 2006, the Ontario economy also had to contend with rising interest rates and weaker U.S. demand for Ontario's key exports.

Ontario's real GDP rose at an annual rate of 2.3 per cent in the second quarter of 2007, following growth of 3.2 per cent in the first quarter. Moderate growth is expected to continue through 2008 as U.S. demand remains soft and the higher Canadian dollar and oil prices create challenges for Ontario businesses.

Ontario's strong economic fundamentals include a well-educated and highly skilled population, a diversified industrial structure, and modern infrastructure. These strong fundamentals ensure the province is well positioned to manage both the challenges and opportunities ahead.

Ontario's strong economic foundation and a rebound in U.S. economic activity are expected to boost growth in 2009 and 2010. Business investment spending is expected to lead growth as firms invest to improve their competitive position. Continued employment growth, strong income gains, low interest rates and increasing wealth will support growing household spending. Ontario's exports are expected to strengthen as U.S. auto demand picks up, the new Toyota plant in Woodstock comes on stream and exports to the rest of the world continue to accelerate.

PRIVATE-SECTOR FORECASTS

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent) — **Table 2**

	2007	2008	2009	2010
Conference Board of Canada (October)	2.4	2.6	3.2	3.2
Global Insight (November)	1.8	2.0	2.0	2.4
Centre for Spatial Economics (July)	1.7	2.1	2.7	2.9
University of Toronto (October)	2.0	1.1	2.6	3.2
RBC Financial Group (October)	1.9	1.8	2.5	–
Scotiabank Group (December)	1.9	1.6	–	–
TD Bank Financial Group (November)	2.1	1.8	2.1	–
BMO Capital Markets (November)	1.9	1.7	–	–
CIBC World Markets (October)	1.9	2.0	–	–
Private-Sector Survey Average	**2.0**	**1.9**	**2.5**	**2.9**
Ontario's Planning Assumption	**1.9**	**1.8**	**2.4**	**2.8**

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (December 5, 2007).

Economic projections are a key building block for the government's fiscal plan. To establish reasonable and accountable economic projections, the Ministry of Finance consults with private-sector forecasters. The Ontario Economic Forecast Council was formed to obtain the best possible advice on macroeconomic forecasts and assumptions. Its members are Peter Dungan from the University of Toronto, Ernie Stokes from the Centre for Spatial Economics, Dale Orr from Global Insight, and Glen Hodgson from the Conference Board of Canada. The Minister of Finance met with Council members and other private-sector forecasters in the process of preparing the *2007 Ontario Economic Outlook and Fiscal Review.*

ONTARIO'S RESILIENCE IN THE FACE OF GLOBAL ECONOMIC CHALLENGES

The short-term Ontario economic outlook is influenced by external factors such as oil prices, the Canadian dollar exchange rate and U.S. economic growth. The next section discusses the challenging outlook for external factors in greater detail as well as the forecast for Ontario's exports. This is followed by a discussion of the outlook for investment, jobs, incomes, household spending and the housing market.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth[1] **Table 3**
(Percentage Point Increase)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.2 to 0.9	0.7 to 1.4
World Crude Oil Prices Decrease by $10 US per Barrel	0.3 to 0.7	0.1 to 0.5
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

[1] Impacts based on changes being sustained.
Source: Ontario Ministry of Finance.

Table 3 shows the typical range for the first- and second-year impacts of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

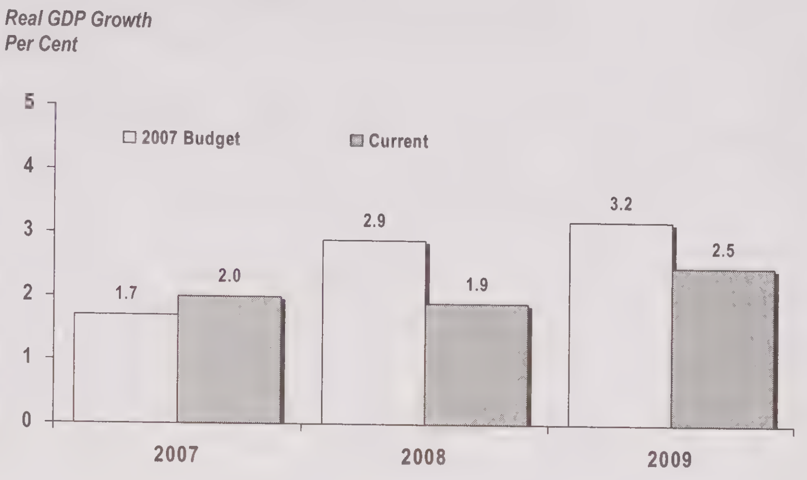
Key External Factors Affecting Ontario's Economy **Table 4**
Average Private-Sector Forecast

	2007		2008		2009		2010
	2007 Budget	2007 Fall Update	2007 Budget	2007 Fall Update	2007 Budget	2007 Fall Update	2007 Fall Update
Canadian Dollar (Cents US)	85.8	93.4	87.2	100.8	87.3	98.1	96.7
Crude Oil ($ US per Barrel)	60.0	71.7	59.7	78.3	60.0	72.3	68.6
U.S. Real GDP Growth (Per Cent)	2.7	2.1	3.0	2.4	3.1	2.9	2.8
Three-Month Treasury Bill Rate (Per Cent)	4.1	4.2	4.2	4.1	4.4	4.5	4.6
10-Year Government Bond Rate (Per Cent)	4.1	4.3	4.5	4.4	5.0	4.9	5.2

Sources: *Blue Chip Economic Indicators* (November 2007) and Ontario Ministry of Finance Survey of Forecasts (March 1, 2007 and December 5, 2007).

COMPARISON TO THE 2007 ONTARIO BUDGET

Private-Sector Forecasts CHART 1



Source: Ontario Ministry of Finance Survey of Forecasts (March 1, 2007 and December 5, 2007).

Since the 2007 Budget, there have been significant unanticipated changes in the economic environment. The Canadian dollar climbed above parity with the U.S. dollar, reaching as high as $1.10 in November 2007. Oil prices reached a recent high of close to $100 US per barrel. Global financial turmoil and credit tightening have recurred as a result of the sub-prime mortgage crisis in the United States. These developments have resulted in private-sector forecasters raising their projections for oil prices and the Canadian dollar, and lowering their projections for U.S. economic growth. As a result of these changing external conditions, private-sector projections for Ontario economic growth in 2008 and 2009 have been revised since the 2007 Budget. Ministry of Finance assumptions remain prudent compared to the private-sector average.

Despite these challenges, Ontario's economy continues to be resilient. Ontario's real GDP is expected to grow by 1.9 per cent in 2007 — 0.3 percentage points higher than the Ministry of Finance's 2007 Budget forecast. Employment is now expected to grow by 1.6 per cent — 0.5 percentage points above the Budget forecast. Incomes have grown strongly in the first half of the year and are expected to surpass the 3.9 per cent growth projected in the 2007 Budget. Corporate profits are now expected to grow by 7.0 per cent in 2007, ahead of the prudent Budget projection of 1.1 per cent growth. Nominal GDP is now expected to grow by 5.0 per cent, above the 3.1 per cent projected in the Budget.

Table 5

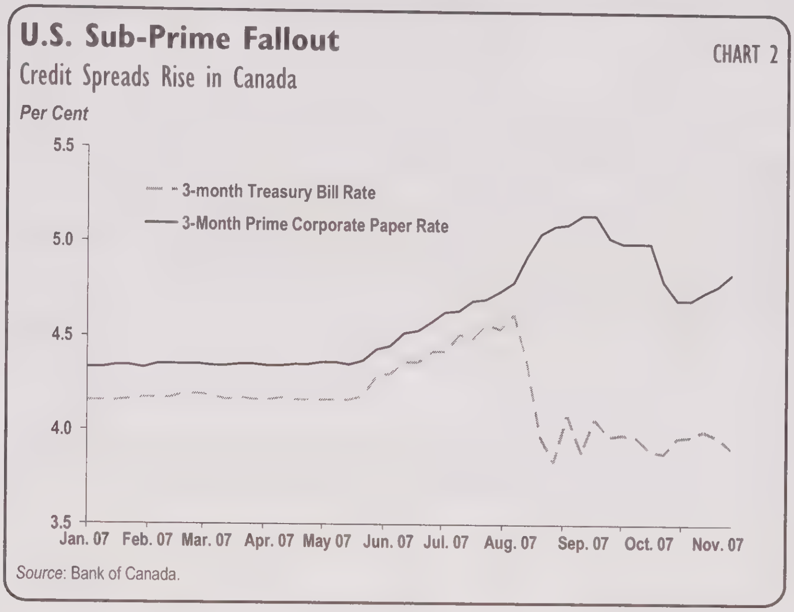
The Ontario Economy in 2007
(Per Cent Change)

	2007 Budget	2007 Fall Update
Real Gross Domestic Product	1.6	1.9
Personal consumption	2.8	3.0
Residential construction	(3.0)	(0.2)
Non-residential construction	2.5	3.8
Machinery and equipment	6.5	4.9
Exports	1.5	1.5
Imports	2.5	3.0
Nominal Gross Domestic Product	3.1	5.0
Other Economic Indicators		
Retail sales	3.6	3.6
Housing starts (000s)	68.0	68.0
Personal income	3.9	5.3
Wages and salaries[1]	3.9	4.9
Corporate profits	1.1	7.0
Consumer Price Index	1.3	1.8
Labour Market		
Employment	1.1	1.6
Job creation (000s)	71	103
Unemployment rate (per cent)	6.3	6.4

[1] Includes supplementary labour income.
Source: Ontario Ministry of Finance.

CHALLENGING EXTERNAL ECONOMIC ENVIRONMENT

U.S. SUB-PRIME MORTGAGE DEFAULTS CHALLENGE FINANCIAL MARKET LIQUIDITY



The recent rise in U.S. sub-prime mortgage defaults and the corresponding effect on global financial markets represent a new challenge for Ontario's economy. For example, much of the rise in the Canadian dollar since August is a consequence of anticipated economic weakness and interest rate cuts in the United States, largely triggered by the sub-prime mortgage default crisis. There has also been a corresponding tightening in credit conditions around the world.

Many of the U.S. sub-prime mortgages were repackaged into securities and sold around the world. Many of these collateralized debt obligations (CDOs) were backed by high-yield bonds and loans as well as mortgages. These new, complex financial arrangements resulted in a lack of transparency, making it difficult for investors to determine the underlying value of the assets. The higher default rate for sub-prime mortgages resulted in extreme risk aversion for securities backed by these assets even if the exposure was not large. Uncertainty among market participants began to build in early August 2007, and perceptions of risk rose. Risk aversion increased. Financial institutions increased their cash holdings due to uncertainty about their exposure, squeezing liquidity.

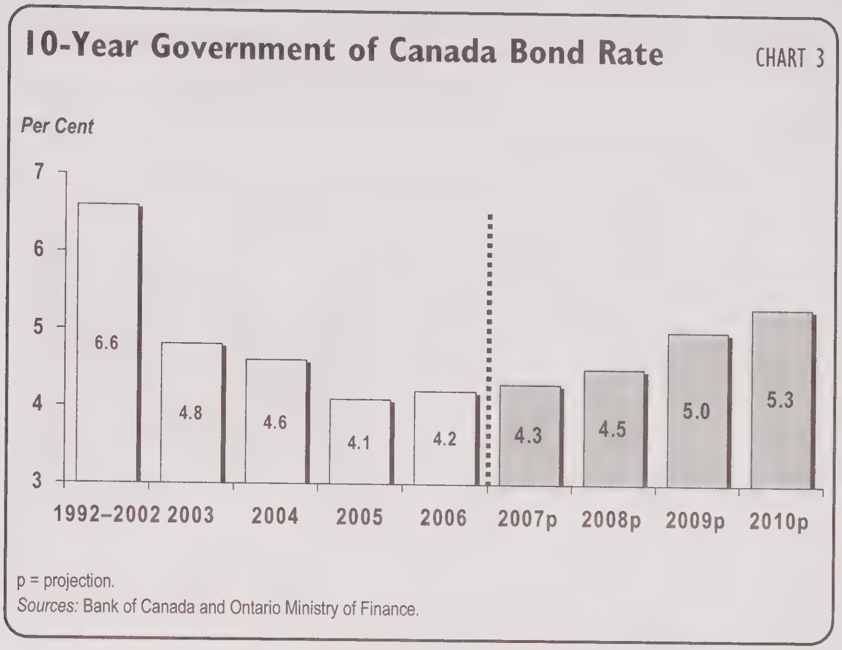
As events unfolded around the world, central banks, including the Bank of Canada, moved quickly to provide significant amounts of liquidity to their financial systems to keep interest rates from rising. The U.S. Federal Reserve has cut its federal funds rate and its discount rate since the crisis began in early August. Following the crisis, the European Central Bank and the Bank of

Canada held off on interest rate hikes that had previously been expected. The Bank of Canada cut the overnight rate by 25 basis points on December 4, noting that the deteriorating international credit markets conditions point to greater risks of weakness ahead. U.S. mortgage delinquencies are expected to rise over coming quarters as large waves of sub-prime loan renewals are reset at higher interest rates. As a result, further financial market volatility may occur. To date, though, effective action by the Bank of Canada has kept Canadian financial markets working smoothly and Ontario is confident markets will continue to operate effectively.

There is uncertainty about the extent and duration of the tightening of credit conditions in Canada and about the tempering effect this may have on growth. Since the summer, credit spreads for riskier types of loans have widened, leading to higher borrowing costs for some businesses and consumers. Tightening credit conditions could cause lenders to make it more difficult for borrowers to obtain business and consumer loans. Weakened business or consumer confidence arising from tighter credit conditions could also restrain spending, which could dampen economic growth.

The recent global liquidity crisis has not materially affected the Province's liquidity. Details on Ontario's exposure to asset-backed commercial paper are discussed in Annex IV: *Borrowing and Debt Management.*

INTEREST RATES TO TREND MODESTLY HIGHER



Interest rates affect consumer spending and business investment as well as the projected expense for interest on the Province's debt.

Once the current market turbulence is over, interest rates are expected to trend up gradually. Private-sector forecasters project Canadian three-month treasury bill rates will average 4.2 per cent in 2007, 4.1 per cent in 2008, 4.5 per cent in 2009 and 4.6 per cent in 2010. There is a wide range of views on three-month treasury bill yields next year, ranging from a low of 3.0 per cent to a high of 4.8 per cent. Private-sector forecasts for 10-year Government of Canada bonds in 2008 range from a low of 3.7 per cent to a high of 4.9 per cent. Ministry of Finance interest rate assumptions are deliberately set above average private-sector forecasts. Although interest rates are projected to edge higher over the medium term, they are expected to remain well below their historical averages.

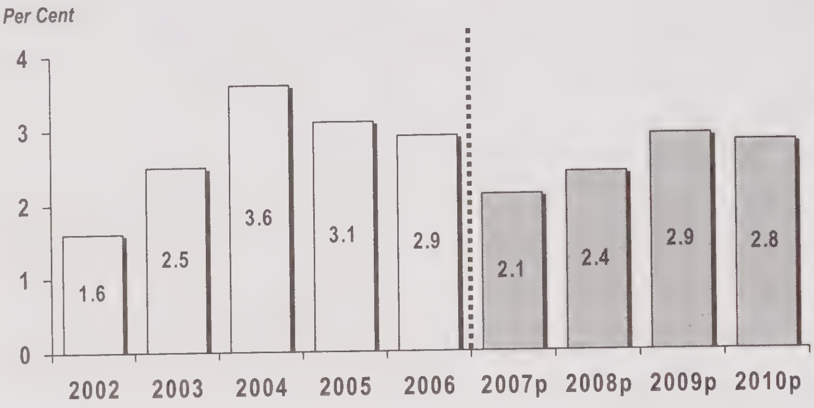
Canadian Interest Rate Outlook **Table 6**
(Annual Per Cent)

	2007p	2008p	2009p	2010p
Three-Month Treasury Bill Rate	4.1	4.2	4.6	4.7
10-Year Government Bond Rate	4.3	4.5	5.0	5.3

p = projection.
Source: Ontario Ministry of Finance.

UNITED STATES SET TO OVERCOME SETBACKS

U.S. Real GDP Growth CHART 4

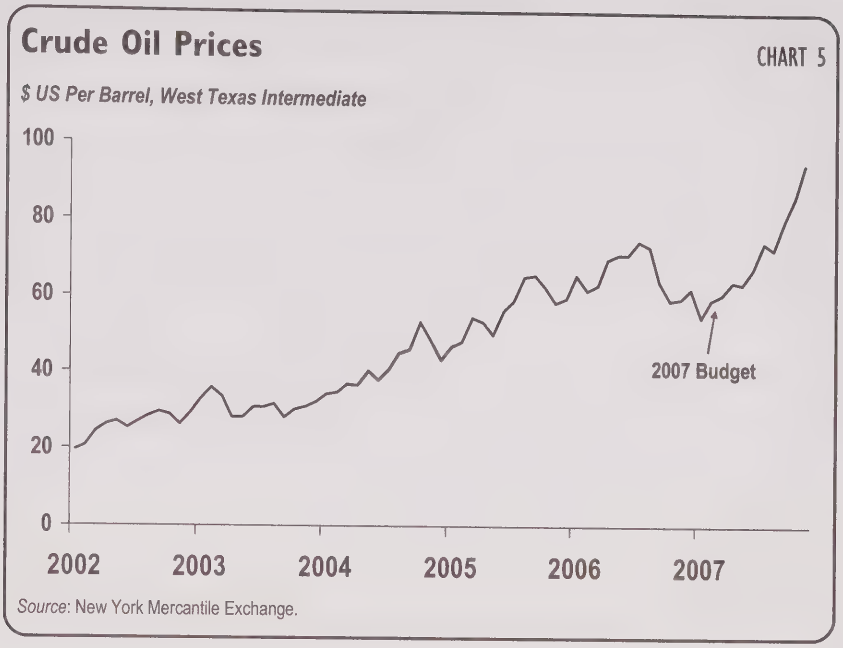


p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (November 2007).

The economic performance in the United States is critical for Ontario as the lion's share of the province's international merchandise exports is U.S.-bound. Private-sector forecasters expect U.S. GDP growth of 2.1 per cent in 2007, well below the previous three years when growth averaged 3.2 per cent.

Growth in the United States is expected to improve as financial market concerns are resolved and the housing market recovers. Real GDP growth in the United States is expected to grow by 2.4 per cent in 2008, 2.9 per cent in 2009 and 2.8 per cent in 2010. A pickup in U.S. growth is important to Ontario exports, particularly U.S. spending on autos and building materials produced in Ontario.

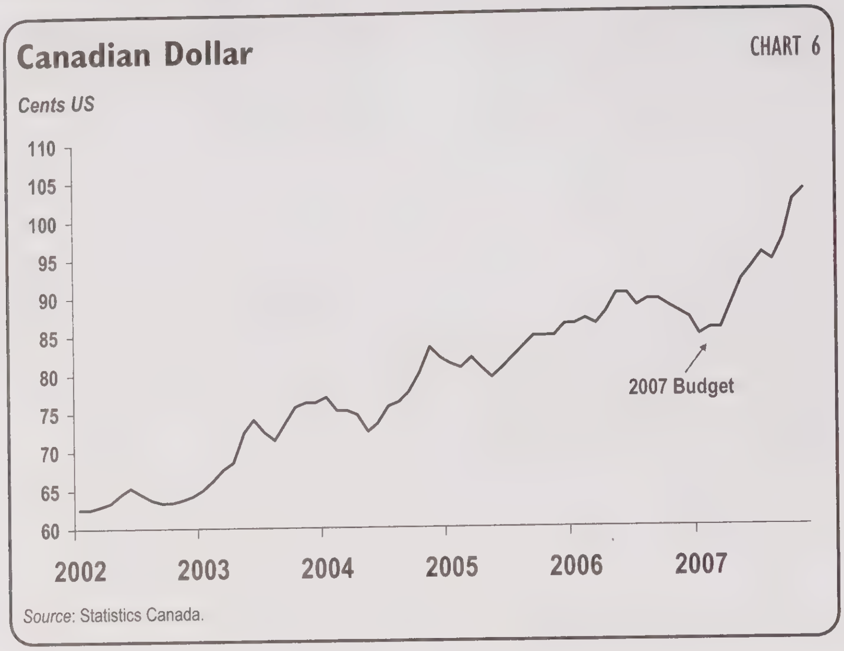
OIL PRICES ARE EXPECTED TO REMAIN HIGH



Higher oil prices, which raise costs for Ontario businesses and consumers, tend to dampen economic growth. Oil prices rose over 150 per cent from $26.10 US per barrel in 2002 to $66.10 US per barrel in 2006. In 2007, oil prices soared from less than $50 US per barrel in mid-January to a new record high of $99.29 US per barrel in November. This was a result of strong global demand, numerous refinery outages and geopolitical risks. It was also due to continued production restraint by OPEC (Organization of the Petroleum Exporting Countries) members and slower-than-expected growth in non-OPEC supply, which helped tighten oil-market supply-and-demand balance.

Private-sector forecasters expect oil prices to remain elevated over the forecast horizon, as healthy global demand and limited surplus capacity will keep markets relatively tight and vulnerable to supply disruptions. Private-sector forecasters call for oil prices to average $78.30 US per barrel in 2008, $72.30 US per barrel in 2009 and $68.60 US per barrel in 2010. Significant volatility still exists in oil markets as analysts' projections for 2008 range from less than $60 US per barrel to $80 US per barrel.

STRONGER CANADIAN DOLLAR CHALLENGES BUSINESS



The stronger Canadian dollar is a serious challenge for businesses as it makes it more difficult to compete with foreign producers, both in the Canadian market and abroad.

On a trade-weighted basis, the Canadian dollar has appreciated more than any other major currency since the beginning of 2002, creating challenges for Ontario's economy — in particular, Ontario's export-oriented manufacturing, agriculture and forestry sectors. Travel from the United States to Ontario also has been adversely affected by the strength of the dollar. However, the higher dollar lowers the cost of imported machinery and equipment since about 60 per cent is imported, providing a good opportunity for factories to upgrade technology and improve efficiencies.

The Canadian dollar has appreciated by about 65 per cent from early 2002 to November 2007, climbing above parity with the U.S. currency in late September for the first time since November 1976. The dollar has been quite volatile this year. From a low of 84.2 cents US on February 8, the dollar climbed to a high of 110.3 cents on November 7. Recently, it has eased back to trade below parity with the U.S. dollar. Through all this, the Canadian dollar has averaged about 93 cents US so far in 2007, on pace to mark the fifth straight annual increase. Private-sector forecasters expect it to average about 98.5 cents US per year in 2008 through 2010.

There is a significant divergence of views on the Canadian dollar, with forecasts ranging from an annual average of 104.7 cents US to 92.6 cents US next year. The wide range of projections reflects differing views about global growth, commodity prices and the long-run fair value of the dollar.

HIGH DOLLAR WILL CHALLENGE ONTARIO'S TRADE PERFORMANCE

Ontario's net export balance has diminished in both value and volume due to reduced exports to the United States, largely attributable to the strong Canadian dollar and weaker U.S. demand. While exports to the United States have declined, those to the rest of the world have increased dramatically. Over the past five years, the Canadian dollar value of Ontario merchandise exports to the United States declined by 7.4 per cent while exports to other countries nearly doubled (+93.8 per cent). This has occurred to a lesser degree on the import side. Over the 2002 to 2006 period, the value of Ontario imports from the United States fell 2.8 per cent, while imports from all other countries grew 38.5 per cent, with China accounting for nearly half of that growth.

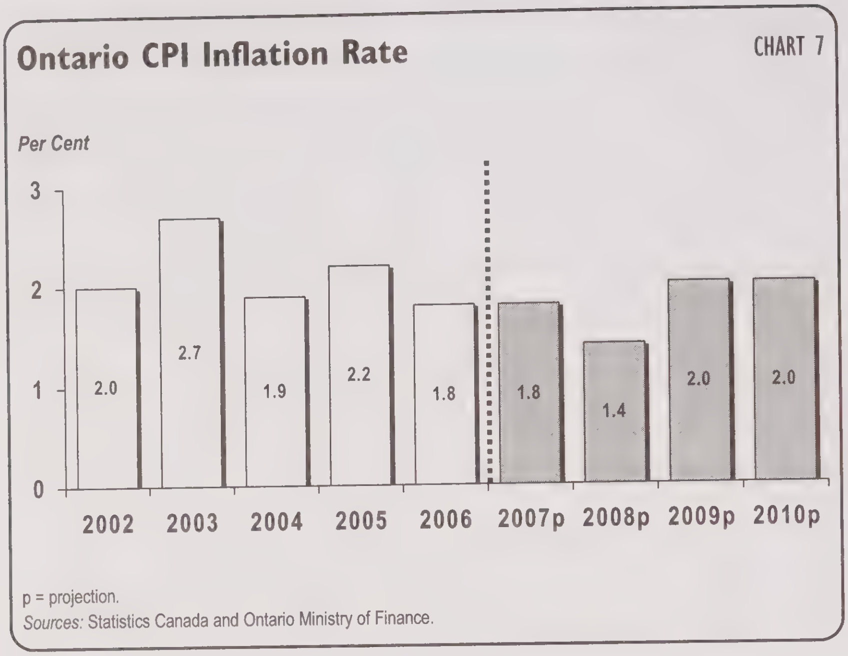
In recent years, interprovincial trade has also increased in importance to Ontario, accounting for 31.5 per cent of the value of Ontario's exports in 2006. Strong growth in Western Canada is expected to continue to boost Ontario's exports.

Weaker growth in the United States, a stronger Canadian dollar and restructuring in the auto industry will hold down exports in the near term. However, the opening of a new Toyota plant in Woodstock in 2008 will give exports a lift. The auto sector currently accounts for 41 per cent of Ontario's international merchandise exports, with 97 per cent of auto exports destined for the United States.

Strong global growth, particularly from India and China, will provide ongoing strength for Ontario industrial goods and materials exports.

Ontario real exports are projected to rise by 1.5 per cent in 2007. In 2008, real export growth is expected to slow to 1.0 per cent due to weaker U.S. demand. Real export growth is expected to strengthen in 2009 and 2010, averaging 2.7 per cent, reflecting stronger domestic demand in the United States and buoyant global demand. There is a wide range of views on the outlook for Ontario's trade balance, reflecting different views on the dollar, U.S. demand and how quickly Ontario exporters will adjust to the competitive global market.

INFLATION WILL REMAIN STABLE



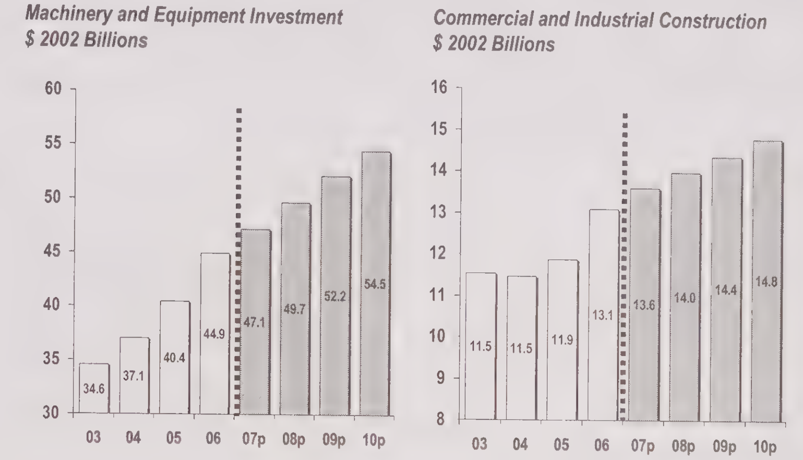
Ontario's consumer price index (CPI) inflation rate has been low and stable in recent years, averaging 2.1 per cent over the 2002 to 2006 period. It was 2.3 per cent in October and has averaged 1.7 per cent so far in 2007.

Inflation is expected to remain well contained over the forecast horizon. Ontario's CPI inflation rate is expected to fall to 1.4 per cent in 2008. This incorporates the one percentage point cut in the federal goods and services tax (GST) on January 1, 2008 that will reduce the CPI inflation rate by an estimated 0.6 per cent. Ontario's CPI inflation rate is expected to average 2.0 per cent in 2009 and 2010. The average private-sector forecast for Ontario inflation for 2009 to 2010 ranges from a low of 1.8 per cent to a high of 2.3 per cent. The narrow forecast range over the medium term reflects the private sector's view that the Bank of Canada's monetary policy will succeed in keeping inflation near the mid-point of its one to three per cent target range.

CONTINUED STRONG AND RESILIENT DOMESTIC ECONOMY

STRONG INVESTMENT SPENDING TO CONTINUE

Real Business Investment CHART 8



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

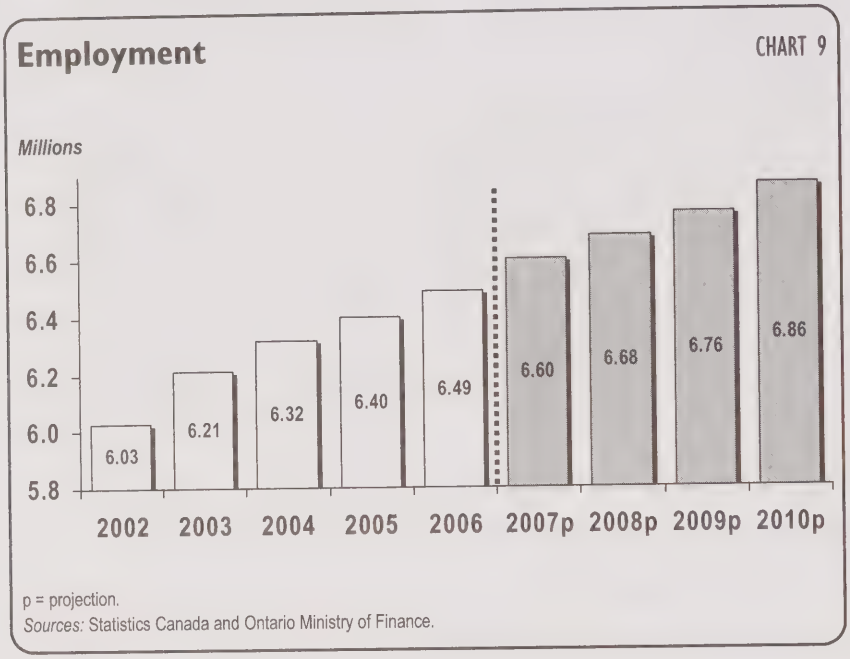
The outlook for business investment remains positive over the forecast horizon. Healthy balance sheets will continue to contribute to a positive investment climate. Ontario corporate profits have expanded in the last several years, reaching 11.5 per cent of GDP in 2006. Corporate profits as a share of GDP are projected to average 12.0 per cent in 2007 through 2010, above the historical average of 10.0 per cent. Corporate profits are projected to increase by 7.0 per cent in 2007 and by an average of 5.2 per cent from 2008 through 2010.

Investment spending rose strongly over the 2002 to 2006 period. Real machinery and equipment spending advanced by an average of 5.2 per cent and non-residential investment grew by 2.8 per cent annually. Strong investment spending has continued through the first half of 2007, with real machinery and equipment spending up 6.1 per cent and real non-residential construction spending up 5.1 per cent over the same period of 2006.

Machinery and equipment investment gives firms access to leading-edge technologies, improving productivity and enhancing competitiveness. Lower costs of imports will continue to contribute to strong investment in machinery and equipment. Real spending on machinery and equipment is projected to rise by 4.9 per cent in 2007, and 5.0 per cent annually from 2008 through 2010.

Strong growth in commercial and industrial construction is also expected, reflecting investment by utilities; transportation and warehousing; retail trade; and finance, insurance and real estate. Total real commercial and industrial construction spending is expected to increase by 3.8 per cent in 2007, and 2.9 per cent annually from 2008 through 2010.

MORE JOBS WILL BE CREATED



Almost 418,000 net new jobs have been created since October 2003. Over 95 per cent of those jobs were in occupations that paid an average over $19.50 per hour, including jobs in natural and applied sciences, management, social sciences, and education. The strongest job growth over the past four years has occurred in:

- educational services (109,600)
- wholesale and retail trade (80,600)
- health care and social services (56,300)
- finance, insurance, real estate and leasing (56,100)
- information, culture and recreation (43,700)
- professional, scientific and technical services (37,600)
- construction (36,200).
- public administration (31,900)

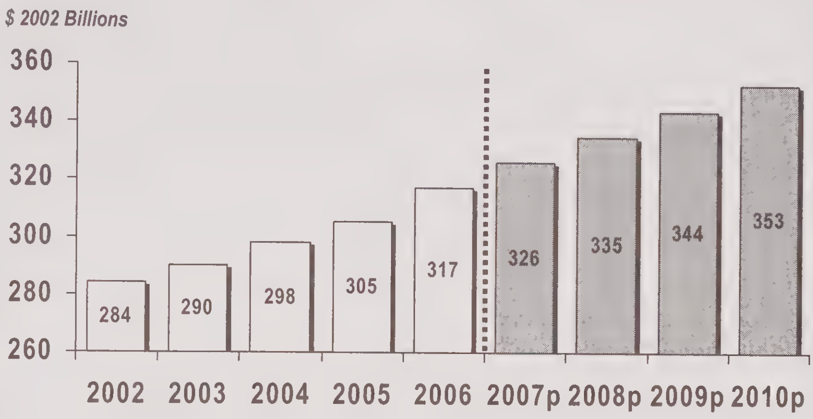
So far this year, the Ontario economy has created 102,800 net new jobs, with full-time positions accounting for 60 per cent of the increase. Job gains have been broadly based in the service sector and include 33,600 new positions in health care and social services; 29,900 in accommodation and

food services; 23,600 in professional, scientific and technical services; and 19,500 in education. On the goods-producing side, the construction industry added 8,700 jobs and utilities created 9,600 jobs.

Employment is expected to grow by 1.6 per cent for 2007 as a whole, following a 1.5 per cent gain in 2006. The unemployment rate is anticipated to average 6.4 per cent in 2007 — compared to a 10-year average of 6.8 per cent. Ontario is projected to create an additional 82,000 jobs in 2008, an increase of 1.2 per cent. Job growth is expected to pick up in 2009 and 2010, with an average increase of 1.3 per cent each year.

INCOMES WILL CONTINUE TO GROW

Real After-Tax Income CHART 10



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

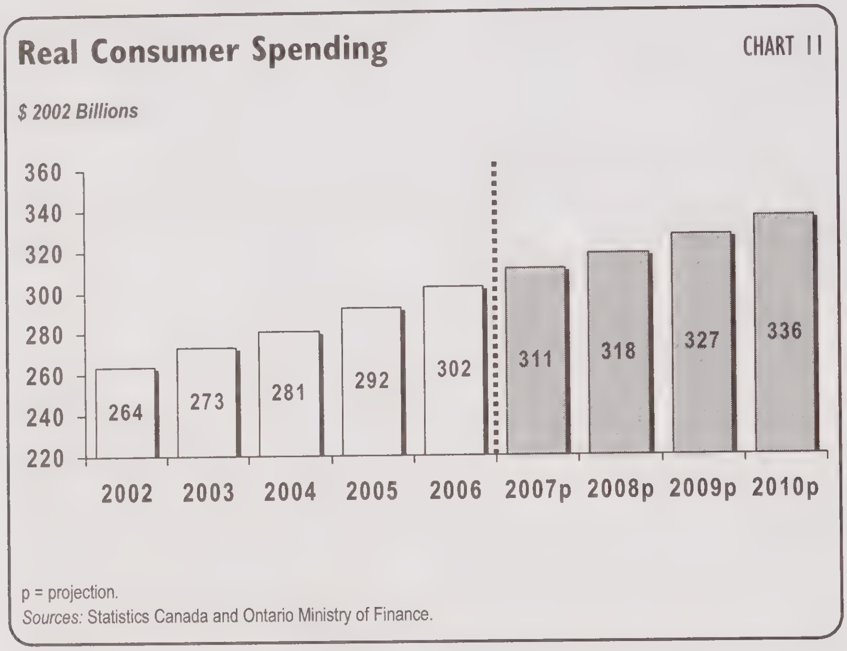
Over the 2002 to 2006 period, personal income grew strongly, rising by an annual average of 3.9 per cent, contributing to a 2.6 per cent annual gain in inflation-adjusted after-tax income. This rise reflects strong gains in labour income as employment growth averaged 1.8 per cent and hourly wage growth averaged 2.6 per cent a year.

Real after-tax income is up 3.6 per cent over the first half of 2007, reflecting buoyant labour income, unincorporated business income and investment income. Both total personal and labour income growth are solid, reflecting strong job creation, up 1.6 per cent, and healthy wage gains, up 2.8 per cent.

Personal income is projected to grow by 5.3 per cent in 2007, or 3.0 per cent after adjusting for inflation and taxes. Personal income growth is expected to soften to 3.8 per cent in 2008, leading

to a 2.6 per cent increase in real after-tax income. Looking ahead, personal income is forecast to grow by an average of 4.4 per cent in 2009 and 2010, in part reflecting stronger employment growth. Real after-tax income is expected to increase by an average of 2.7 per cent in 2009 and 2010.

EMPLOYMENT AND INCOME GAINS WILL FUEL HOUSEHOLD SPENDING

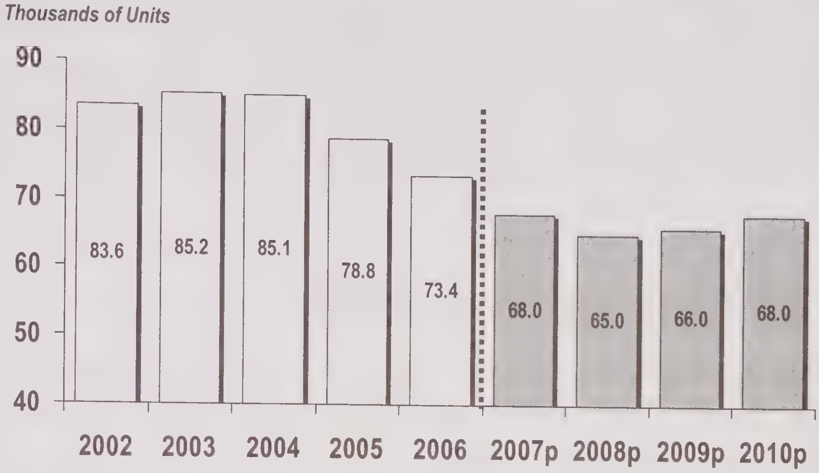


Solid income growth has led to healthy household finances and strong consumer spending growth. Over the 2002 to 2006 period, retail sales expanded by an average of 4.3 per cent a year. Over the first nine months of 2007, they were up 3.7 per cent. Home-related purchases remain robust, with sales at furniture, home furnishings and electronics stores expanding 8.3 per cent in the first nine months of this year. Sales at new car dealers are up just 0.1 per cent compared to the same period last year, reflecting modest unit sales and lower prices. The moderate growth in new car sales has limited the growth in overall retail sales since new car sales normally account for about 20 per cent of Ontario retail sales. Retail sales are expected to grow by 3.6 per cent in 2007, 3.4 per cent in 2008, and by an average of 4.1 per cent in 2009 and 2010.

Consumer spending on both goods and services, in real terms, increased by a robust 3.4 per cent annually over the 2002 to 2006 period. Over the first half of this year, real personal expenditure rose by 3.8 per cent over the same period last year. Real consumer spending is expected to rise by 3.0 per cent in 2007, 2.4 per cent in 2008 and then average 2.8 per cent in 2009 and 2010, in line with real after-tax income.

HOUSING MARKET REMAINS HEALTHY

Ontario Housing Starts CHART 12



p = projection.
Sources: Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Ontario's housing market was a source of strength in the economy over the 2002 to 2006 period. Housing starts averaged 81,200 units annually, outperforming expectations. Housing resales also soared, reaching record levels in 2002, 2003 and 2004, and averaging gains of 3.7 per cent over the 2002 to 2006 period.

Ontario's housing market remains strong, with housing resales set to reach record levels in 2007. Housing starts have eased from 73,400 units in 2006 to an annual rate of 68,600 units so far this year. Rising house prices and upward movement in mortgage rates have dampened housing affordability, but new mortgage products such as longer amortization loans have helped to offset these effects and increased accessibility for buyers.

Housing starts are expected to total 68,000 units in 2007 and average 66,300 units over the 2008 to 2010 period. Ongoing strong international immigration will boost overall population and result in the creation of an average of 72,000 new Ontario households a year from 2008 through 2010.

Ontario's resale market has continued to surpass expectations. After slowing slightly in 2005 and 2006, home resales have surged in 2007 and are up over 10 per cent so far this year. Resales are projected to rise by 9.0 per cent in 2007 before easing by 2.9 per cent in 2008, and then to grow by an average of 1.5 per cent in 2009 and 2010. Strong demand has put upward pressure on prices. The average price of an Ontario home is projected to increase from $299,000 in 2007 to $329,000 in 2010, an increase of close to 10 per cent. Ontario's housing market is expected to remain healthy. There is little evidence of overbuilding and although housing prices have increased, low

interest rates and strong income growth mean that mortgage payments as a share of household income remain well below the peak in 1990.

Ontario's housing market does not face the same risks as the U.S. market. Adjustable-rate mortgages are less prevalent in Canada, with the sub-prime mortgage market accounting for only five per cent of total mortgage originations in Canada in 2006 compared to 22 per cent in the United States. In addition, Canadian financial institutions have tighter lending standards and most homebuyers in Canada must purchase insurance if they lack the required 20 per cent down payment.

DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

The Ministry of Finance's outlook for the major external factors shaping Ontario's economic prospects is closely tied to private-sector forecasts. These factors include the U.S. economic outlook, interest rates, Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada. The Ministry of Finance's forecast for real GDP growth is deliberately prudent, 0.1 percentage point below the average private-sector forecast in every year. Developing revenue estimates requires highly detailed economic forecasts that often go well beyond what is readily available from most private-sector forecasters. As such, the more detailed components of the outlook, such as those in this table, are based on a combination of private-sector forecasts and macro-econometric models. Professional judgment also plays a role, especially in interpreting model results, judging the reasonableness of private-sector forecasts and incorporating the latest information.

Table 7 shows the key details of the Ministry of Finance's economic outlook for the 2007 to 2010 period.

The Ontario Economy, 2005 to 2010
(Per Cent Change)

Table 7

	Actual					Projected
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Real Gross Domestic Product	2.9	2.1	1.9	1.8	2.4	2.8
Personal consumption	3.6	3.5	3.0	2.4	2.7	2.9
Residential construction	1.8	1.1	(0.2)	0.9	2.0	2.5
Non-residential construction	3.6	10.4	3.8	2.9	2.7	3.0
Machinery and equipment	9.1	11.2	4.9	5.4	5.0	4.5
Exports	2.2	(0.2)	1.5	1.0	2.5	2.9
Imports	3.9	2.7	3.0	2.7	3.0	3.0
Nominal Gross Domestic Product	3.9	3.9	5.0	3.8	4.0	4.7
Other Economic Indicators						
Retail sales	4.8	4.1	3.6	3.4	4.1	4.2
Housing starts (000s)	78.8	73.4	68.0	65.0	66.0	68.0
Personal income	4.5	4.8	5.3	3.8	4.3	4.5
Wages and salaries[1]	5.0	4.5	4.9	3.8	4.0	4.2
Corporate profits	(1.8)	3.9	7.0	5.4	4.9	5.2
Consumer Price Index	2.2	1.8	1.8	1.4	2.0	2.0
Labour Market						
Employment	1.3	1.5	1.6	1.2	1.3	1.4
Job creation (000s)	81	95	103	82	86	94
Unemployment rate (per cent)	6.6	6.3	6.4	6.6	6.4	6.3

[1] Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Section C: Ontario's Fiscal Plan

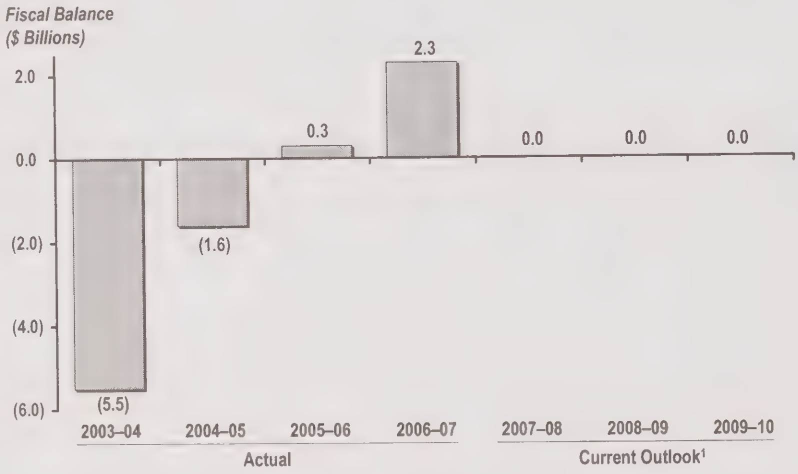
The government's sound leadership and prudent fiscal management have resulted in a steady improvement from the inherited $5.5 billion deficit in 2003–04 to the $2.3 billion surplus recorded in 2006–07. The solid progress made in the Province's fiscal position is also reflected in the improvement in the level of Provincial debt relative to Ontario's gross domestic product (GDP), which improved from 25.2 per cent in 2003–04 to 19.1 per cent in 2006–07 — its lowest level in 15 years.

While eliminating the deficit over this period, the government has also worked to restore public services by increasing funding to priority areas such as health care, education, social services, postsecondary education and training, and infrastructure.

Moving forward, the government is projecting ongoing and sustainable balanced budgets over the medium term. In fact, despite the slower economic growth outlook for 2008 and 2009, the Province is on track to deliver five consecutive balanced budgets between 2005–06 and 2009–10.

The fiscal plan remains prudent in the face of a slower economic growth outlook, with reserves of $0.8 billion in 2007–08 and $0.9 billion in 2008–09 and 2009–10.

Ontario's Strong Fiscal Performance CHART 13



[1] Current fiscal outlook includes reserves of $0.8 billion in 2007–08 and $0.9 billion in 2008–09 and 2009–10.

KEY ELEMENTS OF ONTARIO'S MEDIUM-TERM FISCAL PLAN

The *Fiscal Transparency and Accountability Act, 2004* sets out a number of criteria that the Province's fiscal plan must meet. These criteria ensure the highest level of transparency and accountability in fiscal planning and reporting.

The act requires the Ontario Government to plan for balanced budgets, which is reflected in the fiscal plan outlined in the *2007 Ontario Economic Outlook and Fiscal Review*. Key elements of the government's fiscal plan that will ensure the achievement of ongoing balanced budgets include:

- making disciplined decisions that hold the average annual rate of growth in total expense to less than the average annual rate of growth in total revenue over the medium term
- taking decisive action to strengthen Ontario's economic advantage through a plan to enhance competitiveness and invest in people and communities and infrastructure
- promoting principled and sustainable federal–provincial fiscal arrangements
- maintaining a prudent debt-to-GDP ratio
- maintaining a cautious and prudent fiscal plan, including an annual reserve.

2007–08 FISCAL OUTLOOK

The government is currently projecting a balanced budget in 2007–08. This represents an in-year improvement of $400 million from the 2007 Ontario Budget Plan and is consistent with the outlook presented in the 2007–08 First Quarter Ontario Finances. Additional information on 2007–08 revenue and expense projections can be found in Section D: *Ontario's Revenue Outlook* and Section E: *Ontario's Expense Outlook*.

2007–08 Fiscal Outlook — In-Year Change ($ Millions) **Table 8**

	Budget Plan 2007–08	Current Outlook 2007–08	In-Year Change
Revenue	**91,503**	**94,100**	**2,597**
Expense			
Programs	82,030	84,283	2,253
Interest on Debt	9,123	9,067	(56)
Total Expense	**91,153**	**93,350**	**2,197**
Reserve	750	750	–
Surplus/(Deficit)	**(400)**	**0**	**400**

Total revenue in 2007–08 is currently projected to be $94,100 million, an increase of $2,597 million from the 2007 Budget Plan and $2,014 million from the 2007–08 First Quarter Ontario Finances. This increase is primarily due to a higher taxation revenue outlook, which is boosted by higher

revenues related to processing of prior years' tax returns. In-year revenue changes are discussed in greater detail in Section D: *Ontario's Revenue Outlook.*

The total expense outlook at $93,350 million is a net $2,197 million higher than the 2007 Budget Plan and up $2,014 million from the 2007–08 First Quarter Ontario Finances. This is mainly due to increased spending associated with the government taking decisive action to strengthen Ontario's economic advantage by enhancing Ontario's competitiveness, and investing in its people and communities as well as infrastructure.

MEDIUM-TERM FISCAL OUTLOOK

The government is projecting balanced budgets in each year over the medium term, while remaining prudent in light of the slower economic growth outlook in 2008 and 2009 than projected at the time of the 2007 Budget.

As compared to 2007–08, the revenue outlook in 2008–09 and 2009–10 is moderated by a slower economic growth outlook in 2008 and 2009, reflecting a slower growth outlook for the U.S. economy, higher oil prices and a higher Canadian dollar. The expense outlook continues to reflect the government's commitment to building and investing in public services as outlined in the 2007 *Moving Forward Together* campaign platform.

Overall, the fiscal outlook remains prudent, and a balanced budget is projected in both 2008–09 and 2009–10. The prudent fiscal outlook is reflected explicitly in the reserves, which are set at $0.8 billion in 2007–08 and $0.9 billion in each year over the medium term, in recognition of the risks that could materialize due to unanticipated changes in Ontario's economic outlook or in Provincial revenue and expense.

The improvement in Ontario's fiscal position is also reflected in an improving Provincial debt-to-GDP ratio. Since 2003–04, Ontario's debt-to-GDP ratio (debt is defined as accumulated deficit) has improved from 25.2 per cent to 19.1 per cent in 2006–07 — its lowest level in 15 years. It is now projected to improve even further to 18.2 per cent in 2007–08, and to 16.9 per cent by 2009–10.

The following table provides the Province's medium-term fiscal plan and outlook for 2006–07 to 2009–10. Further details are included in Section F: *Details on Ontario's Finances.*

Medium-Term Fiscal Plan and Outlook ($ Billions)				Table 9
	Actual	Current Outlook		
	2006–07	2007–08	2008–09	2009–10
Revenue	**90.4**	**94.1**	**95.7**	**99.0**
Expense				
Programs	79.3	84.3	85.6	88.8
Interest on Debt	8.8	9.1	9.2	9.4
Total Expense	**88.1**	**93.4**	**94.8**	**98.2**
Reserve	–	0.8	0.9	0.9
Surplus/(Deficit)	**2.3**	**0.0**	**0.0**	**0.0**

Note: Numbers may not add due to rounding.

FISCAL PRUDENCE

The government is applying a disciplined approach to balancing strategic investments in key priority areas with a plan to achieve fiscal balance every year. The fiscal plan includes key elements of prudence each year to help protect the government's overall fiscal objectives and ensure the achievement of fiscal targets.

Consistent with the *Fiscal Transparency and Accountability Act, 2004,* the fiscal plan incorporates prudence in the form of a reserve, in recognition of the risks that could materialize due to unanticipated changes in Ontario's economic outlook or in Provincial revenue and expense.

In light of the slower economic growth outlook and other risks to the economic outlook, the fiscal plan now includes reserves of $0.8 billion in 2007–08, and $0.9 billion in 2008–09 and 2009–10. While the reserve is higher over the medium term than the current year to better reflect the uncertain nature of the medium-term revenue and expense projections, it has been lowered from the levels in the 2007 Budget to offset the impact of slower economic growth in 2008 and 2009, and to reflect the reserve as outlined in the 2007 *Moving Forward Together* campaign platform.

RISKS AND THE FISCAL OUTLOOK

The fiscal outlook is subject to change and reflects a continuum of information that begins with the Budget and ends with the Public Accounts. As new information affecting the economic, revenue and expense assumptions arises throughout the year, the fiscal forecasts change. In this context, it is important to note that the forecasts presented in economic and fiscal updates, including the *2007 Ontario Economic Outlook and Fiscal Review*, represent a point in time along this continuum and are based on the best available information at the time.

The revenue forecast includes assumptions about tax return filings and growth of key factors such as wages, salaries, disposable income and housing prices. It also reflects current federal–provincial funding arrangements and funding formulas for major health and social transfers. Developing revenue estimates also requires highly detailed economic forecasts, which include assumptions about factors such as the U.S. economic outlook, the Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada.

Variances from revenue estimates arise due to inherent uncertainties involved in predicting the future and lags in information flows. A variance in any of the key factors underlying the revenue assumptions could result in a change to the revenue forecast. A sensitivity analysis of key revenue assumptions and factors is provided in Section D: *Ontario's Revenue Outlook*.

The total expense forecast includes assumptions about program growth and demands, as well as additional planned spending in key priority areas. As many ministries' expense forecasts are based on assumptions about utilization, enrolment or caseloads, a change in these factors could impact total expense, causing changes in the overall fiscal forecast. Section E: *Ontario's Expense Outlook* provides a sensitivity analysis of the key factors affecting the expense forecast.

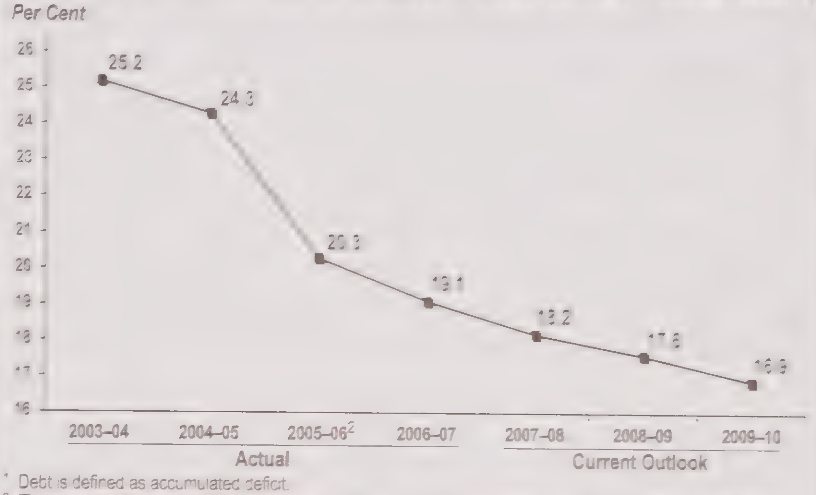
For example, a change of one per cent to total revenue or total expense in 2009–10 represents about a $1.0 billion change in the Province's overall fiscal outlook. While this change may be small compared to the government's overall budget, it can cause significant swings in the Province's surplus/deficit. It is due to this type of uncertainty that the fiscal plan includes prudence in the form of a revenue forecast based on prudent economic assumptions, contingency funds and a reserve. Prudent economic assumptions include growth rates for real GDP that are set lower than the average of private-sector forecasts in each year. These forms of prudence exist to help offset any negative impact to the fiscal plan that could result from even a small variance in the revenue and expense forecast.

As the factors and assumptions underpinning the revenue and expense forecasts interact and shift, fiscal and economic updates at various times of the fiscal cycle may include adjustments to the revenue and expense forecasts to reflect these changes. Updates such as those provided in the *2007 Ontario Economic Outlook and Fiscal Review* are based on the best available information, and provide transparency around the changes to the fiscal forecast and information on key risks and sensitivities that may affect the fiscal plan.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

A key element of the government's medium-term fiscal plan is the commitment to maintain a prudent level of Provincial debt (where debt is defined as accumulated deficit) relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges can crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term in nature to ensure that future generations are not faced with the erosion of key programs and services.

Continual Improvement in Ontario's Debt-to-GDP[1] Ratio CHART 14



[1] Debt is defined as accumulated deficit.
[2] The substantial decline in 2005–06 was primarily due to a one-time reduction of $16.3 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.
Source: Ontario Ministry of Finance.

In line with Ontario's strong fiscal performance in recent years, the Province's debt-to-GDP ratio improved from 25.2 per cent in 2003–04 to 19.1 per cent by 2006–07 — its lowest level in 15 years. It is projected to improve even further to 16.9 per cent by 2009–10.

Section D: Ontario's Revenue Outlook

The revenue forecast reflects the best use of information available at the time the fiscal plan is developed, including the Ministry of Finance's economic outlook and the estimated impacts of government policy decisions.

Since the 2007 Ontario Budget, the strength of the economy in 2007 has raised the taxation revenue base for 2007–08 and beyond. The taxation revenue outlook is also boosted by recent information related to processing of prior years' tax returns.

There are, however, still risks to the 2007–08 outlook, with important revenue information still to come later in the year. Changes in the current environment, especially the stronger Canadian dollar and higher oil prices, could affect economic performance over the rest of the fiscal year. As well, as past years' tax return processing is finalized over the coming months, the revenue outlook could change. Corporations Tax revenues are subject to the greatest uncertainty.

Growth in taxation revenues in 2008–09 and 2009–10 is moderated by a slower economic growth outlook for 2008 and 2009, reflecting a higher Canadian dollar, higher oil prices and a slower growth outlook for the U.S. economy. Uncertainty still exists over the medium term, particularly as it relates to potential sub-prime mortgage developments in the United States and their impacts on global financial markets. For more details on the economic outlook, see Section B: *Ontario's Economic Outlook*.

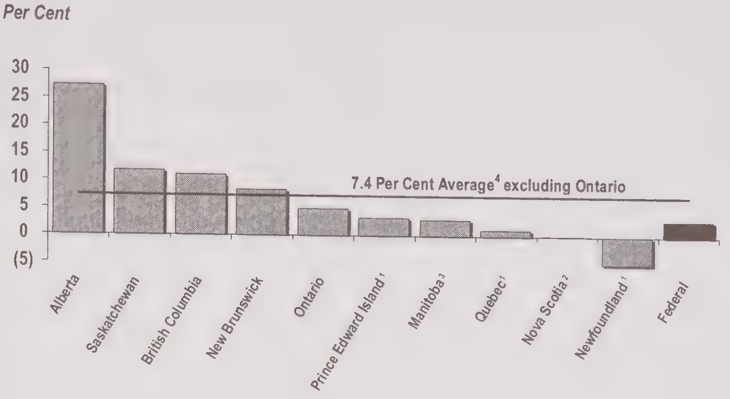
The revenue outlook reflects current federal–provincial funding arrangements and formulas for major health and social transfers. The outlook for Government of Canada Transfers has increased since the 2007 Budget due to new funding arrangements announced in the 2007 federal budget and revised estimates of Ontario's Canada Health Transfer and Canada Social Transfer entitlements.

The revenue outlook reflects a number of policy measures, including new tax measures and the government's decision to upload from municipalities the total cost of the Ontario Disability Support Program and Ontario Drug Benefits for social assistance recipients over four years starting in 2008. Municipalities currently reimburse the Province for a portion of the costs of delivering these programs. By the time it is fully implemented in 2011, the upload will save municipalities $935 million a year. Tax measures are discussed in greater detail in Annex II: *Enhancing Ontario's Tax Competitiveness*.

INHERENT UNCERTAINTY IN FORECASTING REVENUES

2006–07 Tax Revenue (Variance from Forecast)

CHART 15



[1] = Interim [2] = Income and sales taxes [3] = All identifiable taxes [4] = Absolute average
Sources: Federal and Provincial Public Accounts and Budgets and Ontario Ministry of Finance.

Variances from revenue estimates arise due to the inherent uncertainties of predicting the future and lags in information flows. In recent years, actual revenues have been higher than estimated for reasons outlined in each year's provincial annual report. For example, 2006–07 taxation revenues were $3 billion higher than projected in the 2006 Budget Plan, mainly due to higher-than-expected Personal Income Tax and Corporations Tax revenue performance in 2006–07 and adjustments in these tax revenues related to earlier years. Other Canadian jurisdictions have had similar experiences. As Chart 15 shows, in 2006–07, Ontario taxation revenues were 5.0 per cent above forecast compared to the 7.4 per cent absolute average variance for other Canadian jurisdictions.

Taxation revenue estimates based on the economic outlook are largely developed using macro-econometric and micro-simulation models. Model-based forecasting that captures the relationship between a revenue source and its main economic drivers, given the structure of the tax system, is generally accepted as a best practice. Key assumptions and risks related to each major revenue source are discussed below. Additional details on the impact of changes in key planning assumptions are provided in Table 15, Selected Economic and Revenue Risks and Sensitivities.

SOURCES OF 2007–08 REVENUE CHANGE SINCE 2007 ONTARIO BUDGET

Summary of 2007–08 In-Year Revenue Change Since 2007 Ontario Budget ($ Millions)		Table 10
Taxation Revenue		
Personal Income Tax	1,033	
Corporations Tax	816	
Ontario Health Premium	92	
Gasoline Tax	(53)	
Tobacco Tax	(78)	
Land Transfer Tax	183	
Electricity Payments-In-Lieu of Taxes	(42)	
All Other Taxes	173	
		2,124
Government of Canada		
Canada Health and Canada Social Transfer	464	
All Other Government of Canada	140	
		604
Income from Government Business Enterprises		
Ontario Lottery and Gaming Corporation	(15)	
Ontario Power Generation Inc. and Hydro One Inc.	(84)	
		(99)
Other Non-Tax Revenue		**(32)**
Total Revenue Change		**2,597**

Source: Ontario Ministry of Finance.

Personal Income Tax (PIT) is estimated to be $1,033 million above forecast in 2007–08 mainly due to stronger 2007 wages and salaries growth and higher revenues from processing 2006 tax returns. Since the 2007 Budget, processing of 2006 and prior years' tax returns has increased 2006–07 revenues above Budget estimates, raising the base upon which growth is applied in forecasting PIT revenues for 2007–08 and beyond. Higher revenues than estimated in the 2006–07 Public Accounts result in a one-time increase to PIT revenues of $250 million in 2007–08 as variances from past Public Accounts estimates are included in the current year. Personal Income Tax revenues in 2007–08 also include a $120 million payment from the federal government in respect of past years' taxes. Also included is the impact of tax measures announced in the 2007 federal budget that Ontario paralleled and new proposed Ontario tax measures. Annex II: *Enhancing Ontario's Tax Competitiveness* outlines proposed new tax initiatives.

Corporations Tax (CT) revenues for 2007–08 are estimated to be $816 million above the 2007 Budget projection mainly due to stronger 2007 corporate profit growth and higher revenues from processing prior-year tax returns. Since the 2007 Budget, processing of 2006 tax returns has increased estimated 2006–07 CT revenues. This has raised the revenue base upon which growth is applied in forecasting CT revenues for 2007–08 and beyond. Tax return processing has also boosted revenues above the estimates in the 2006–07 Public Accounts. This has resulted in a one-time increase to CT revenues of $400 million in 2007–08 as changes to estimates from past Public Accounts are reflected in the current year. The CT revenue change also captures the impact of a number of tax measures since the 2007 Budget, including 2007 federal budget measures that are paralleled by Ontario and new Ontario tax measures as outlined in Annex II: *Enhancing Ontario's Tax Competitiveness.*

The increase in **Ontario Health Premium** (OHP) revenues of $92 million largely reflects stronger-than-anticipated growth in 2007 wages and salaries and, similar to PIT and CT, a higher revenue base and a one-time revenue increase of $48 million in 2007–08 related to processing 2006 tax returns.

Gasoline Tax revenue is estimated to be $53 million less than forecast in the 2007 Budget due to lower gasoline consumption resulting from higher gasoline pump prices.

Tobacco Tax revenue is estimated to be $78 million below forecast based on revenue performance to date. This reflects a combination of healthier lifestyles among Ontarians and contraband activity in the cigarette market. Further enforcement measures to combat illegal activity were introduced in the 2007 Budget.

The $183 million increase in estimated **Land Transfer Tax** revenues reflects higher housing resale volumes and prices.

Electricity Payments-In-Lieu of Taxes are $42 million below forecast, reflecting lower combined net incomes of Hydro One Inc. (HOI) and Ontario Power Generation Inc. (OPG) (see below).

All Other Tax revenues are estimated to increase by $173 million, largely due to higher Mining Profits Tax revenues arising from higher commodity prices and higher Retail Sales and Employer Health Tax revenues consistent with stronger 2007 economic growth. The All Other Taxes change includes the impact of proposed new Ontario tax measures as outlined in Annex II: *Enhancing Ontario's Tax Competitiveness.*

Canada Health Transfer (CHT) and **Canada Social Transfer** (CST) revenues are estimated to be $464 million above forecast mainly due to revised estimates of current and past-year entitlements under these programs. This results in a $330 million increase in CHT and CST,

including a one-time revenue increase of $220 million as variances from past Public Accounts estimates are reflected in the current year. In addition, 2007 federal budget changes to the calculation of entitlements under CHT and CST result in an additional $134 million in revenues.

The increase in **Other Government of Canada Transfers** in 2007–08 is largely related to the 2007 federal budget announcement of funds for the patient wait-times guarantee and an immunization program to provide the human papillomavirus (HPV) vaccine. In addition, the federal government committed funding for a portion of the costs incurred by the Province in responding to the Caledonia situation.

The decrease in **Ontario Lottery and Gaming Corporation's** net income reflects funding for enhanced regulations for the lottery system by the Alcohol and Gaming Commission of Ontario in response to recommendations by the Ontario Ombudsman.

The decline in the combined net incomes of **HOI** and **OPG** is largely related to the Ontario Energy Board's August 16, 2007 decision on HOI's transmission rate application, which included a lower allowed return on equity for HOI's transmission business than assumed by the Province in the 2007 Budget.

Other Non-Tax Revenue is expected to decline, largely due to the government's decision to upload the cost of the Ontario Disability Support Program and Ontario Drug Benefits for social assistance recipients from municipalities over four years starting in 2008. Municipalities currently reimburse the Province for a portion of the costs of delivering these programs. When the upload is fully implemented in 2011, it will save municipalities $935 million per year.

The overall 2007–08 fiscal outlook is discussed in Section C: *Ontario's Fiscal Plan.*

MEDIUM-TERM REVENUE CHANGES SINCE 2007 ONTARIO BUDGET

The medium-term revenue forecast reflects the Ministry of Finance's economic outlook and the estimated impacts of government policy decisions. Total revenues are projected to increase by $4.9 billion between 2007–08 and 2009–10, or 2.6 per cent a year on average.

Summary of Medium-Term Outlook
($ Billions)

Table 11

Revenue	**Actual 2006–07**	**2007–08**	**2008–09**	**2009–10**
Taxation Revenue	64.3	66.4	68.1	71.5
Personal Income Tax	23.7	24.3	25.3	26.9
Retail Sales Tax	16.2	16.7	17.5	18.4
Corporations Tax	10.8	11.4	11.2	11.5
Ontario Health Premium	2.6	2.7	2.8	2.9
All Other Taxes	11.0	11.3	11.4	11.8
Government of Canada	14.0	16.7	16.0	16.2
Income from Government Enterprises	4.2	3.9	4.4	4.4
Other Non-Tax Revenue	7.9	7.1	7.1	6.9
Total Revenue	**90.4**	**94.1**	**95.7**	**99.0**

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The **Personal Income Tax** (PIT) revenue forecast is consistent with the economic outlook for strong wages and salaries growth in 2007 and more modest wages and salaries growth in 2008 and 2009. Personal Income Tax revenues are boosted in 2007–08 by a one-time adjustment of $0.3 billion due to underestimation of 2006–07 PIT revenues in the Public Accounts and a further $0.1 billion due to a payment from the federal government primarily related to a correction to Ontario's 2005 tax entitlements.

The PIT revenue forecast takes into account the impact of tax measures announced in the current and previous fiscal updates. In addition, the PIT revenue forecast reflects previously announced tax measures such as paralleling of federal government measures related to pension income splitting. The PIT revenue base tends to grow at a faster rate than incomes due to the progressive nature of the tax system.

Summary of Medium-Term Personal Income Tax Outlook ($ Billions)			Table 12
	2007–08	2008–09	2009–10
Total Projected Revenue	24.3	25.3	26.9
Measures Included in Total	(0.2)	(0.4)	(0.4)
Adjustments for Prior Years	0.3	–	–
Other One-Time Revenue	0.1	–	–
Base Revenue	24.1	25.7	27.3
Base Revenue Growth (Per Cent)	7.0	6.3	6.3
Wages and Salaries Growth (Per Cent)	4.9	3.8	4.0

Notes: Numbers may not add due to rounding.
"Measures Included in Total" represents the incremental revenue impact of all tax measures, announced previously and in this fiscal update, relative to their impact on revenue in 2006–07.
"Base Revenue" is "Actual Revenue" less the impact of tax measures or other one-time factors such as prior-year adjustments. Base revenues reflect the impact of underlying macroeconomic factors.
Source: Ontario Ministry of Finance.

Retail Sales Tax (RST) revenue growth is based on the forecast for increased spending by households and businesses. The RST outlook includes previously announced tax exemptions, which have been announced since the 2007 Budget.

The **Corporations Tax** (CT) revenue outlook largely reflects the outlook for pre-tax corporate profits. Corporations Tax revenues in 2007–08 include a one-time adjustment of $0.4 billion due to underestimation of 2006–07 CT revenues in the Public Accounts. The 2007–08 CT outlook prudently includes an adjustment of $0.2 billion due to risks associated with writedowns by corporations related to asset-backed commercial paper. The CT revenue outlook also reflects a number of tax measures proposed in the current and previous fiscal updates. Annex II: *Enhancing Ontario's Tax Competitiveness* outlines Ontario's proposed new tax initiatives.

Summary of Medium-Term Corporations Tax Outlook ($ Billions)			**Table 13**
	2007–08	**2008–09**	**2009–10**
Total Projected Revenue	11.4	11.2	11.5
Measures Included in Total	(0.6)	(0.9)	(1.0)
Asset-Backed Commercial Paper Risk	(0.2)	–	–
Adjustments for Prior Years	0.4	–	–
Base Revenue	11.8	12.1	12.6
Base Revenue Growth (Per Cent)	4.5	2.9	3.7
Profit Growth (Per Cent)	7.0	5.4	4.9

Notes: Numbers may not add due to rounding.
"Measures Included in Total" represents the incremental revenue impact of all tax measures, announced previously and in this fiscal update, relative to their impact on revenue in 2006–07.
"Base Revenue" is "Actual Revenue" less the impact of tax measures or other one-time factors such as prior-year adjustments. Base revenues reflect the impact of underlying macroeconomic factors.
Source: Ontario Ministry of Finance.

The **Ontario Health Premium** forecast is based on the outlook for rising employment and personal incomes.

The forecast for **All Other Taxes** is based on the economic growth outlook outlined in Section B: *Ontario's Economic Outlook*. The forecast is developed on an item-by-item basis. For example, the forecast for Employer Health Tax revenues is based on the outlook for wages and salaries growth. The forecast for all other taxes takes into account the estimated impact of tax measures included in the 2007 *Moving Forward Together* campaign platform, such as Land Transfer Tax measures to expand assistance to first-time homebuyers.

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements and formulas for major health and social transfers. The outlook is lower in the medium term due to one-time funding in 2007–08 related to Canada–Ontario Agreement commitments and the declining level of time-limited Trust funds such as the Wait Times Reduction Fund and those announced in the 2006 federal budget.

The **Income from Government Business Enterprises** outlook is based on information provided by the enterprises. Total income is forecast to increase by $0.5 billion or an average annual rate of 6.5 per cent from 2007–08 to 2009–10, with increased net incomes across all major business enterprises. Government business enterprises include the Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, OPG and HOI.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. Between 2007–08 and 2009–10, other non-tax revenues are

forecast to decline slightly by $0.1 billion. This is due to the government's decision to upload from municipalities the total cost of the Ontario Disability Support Program and Ontario Drug Benefits for social assistance recipients over four years starting in 2008.

The medium-term fiscal plan is discussed in Section C: *Ontario's Fiscal Plan.*

SOURCES OF MEDIUM-TERM REVENUE CHANGE SINCE 2007 ONTARIO BUDGET

Summary of Medium-Term Revenue Change Since Budget **Table 14**
($ Billions)

Key Revenue Changes Since 2007 Ontario Budget	2007–08	2008–09	2009–10
Prior-Year Tax Return Processing — Ongoing	0.9	1.1	1.2
Prior-Year Tax Return Processing — One Time	0.9	–	–
Stronger 2007–08 Economic Growth	1.4	1.5	1.5
Slower Economic Growth in 2008 and 2009	0.0	(0.5)	(0.6)
Tax Policy Measures	(0.7)	(1.0)	(0.7)
Government of Canada Transfers (2007 Federal Budget)	0.3	0.1	0.1
Other	(0.1)	(0.3)	(0.4)
Total Revenue Changes	2.6	1.0	1.2

Notes: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The medium-term forecast for total revenues is higher in each year compared to the 2007 Budget.

Since the 2007 Budget, processing of **prior years' tax returns** has boosted the estimated 2006–07 revenue base upon which growth is applied for 2007–08 and beyond. Higher past-year tax return processing amounts than estimated at the time of the 2006–07 Public Accounts result in a **one-time** revenue pickup in 2007–08. Under Public Sector Accounting Board (PSAB) accounting rules, variances from past Public Accounts estimates are picked up in the current year.

Strong revenue growth as a result of **stronger 2007–08 economic growth** also contributes to a higher revenue base upon which growth is applied for 2008–09 and onwards.

A **slower economic growth outlook in 2008 and 2009** reduces revenues in 2008–09 and 2009–10. The economic outlook is discussed in greater detail in Section B: *Ontario's Economic Outlook.*

New **tax policy measures** announced since the 2007 Budget lower the revenue outlook. These include paralleling of tax measures announced in the 2007 federal budget and other

measures announced by the Province. More details on proposed tax measures can be found in Annex II: *Enhancing Ontario's Tax Competitiveness*.

The **2007 federal budget** included measures that result in a net increase in Government of Canada transfers over the medium term. Among these were changes to the CHT and CST, including a move to a 10-province standard for calculating equalization entitlements under the CHT and a move to a per-capita basis for calculating CST entitlements. The 2007 federal budget also included funding for the patient wait-times guarantee and for an immunization program to provide the HPV vaccine.

Other changes largely reflect the government's decision to upload from municipalities the entire cost of the Ontario Disability Support Program and Ontario Drug Benefits for social assistance recipients over four years starting in 2008 and the impact on electricity-sector revenues of the Ontario Energy Board's August 16, 2007 decision regarding the allowed return on equity for HOI's transmission business.

POTENTIAL RISKS TO PROVINCIAL REVENUE

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues make up the largest category of Provincial revenue. Of the $94.1 billion in total revenues forecast for 2007–08, $66.4 billion, or 71 per cent, is expected to come from taxation revenues. Three revenue sources within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for 56 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of managing public finances.

This section highlights some of the key sensitivities and risks to the fiscal plan that could arise from unexpected changes in economic conditions. It should be cautioned that these estimates, while useful, are only guidelines and actual results can vary depending on the composition and interaction of the various factors. The risks are those that could have the most material impact on the largest revenue sources. There is a broader range of potential additional risks that are not included because either they are not as material or are difficult to quantify. For example, Income from Government Business Enterprises, representing roughly four per cent of total revenues, could be affected by changes in each business's particular business environment. This environment could be affected, for instance, by economic, market, policy and regulatory developments. Likewise, the outlook for Government of Canada transfers reflects current federal–provincial funding agreements but could change with new funding arrangements.

Selected Economic and Revenue Risks and Sensitivities		Table 15
Item/Key Components	**2007–08 Assumption**	**2007–08 Sensitivities**
Total Revenues		
– Real GDP – GDP Deflator	1.9 per cent growth in 2007 3.0 per cent increase in 2007	$720 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– Canadian Interest Rates	4.1 per cent three-month treasury bill rate in 2007	Between $70 million and $360 million revenue change in the opposite direction for each percentage point change in interest rates.
– U.S. Real GDP	2.1 per cent growth in 2007	Between $215 million and $505 million revenue change for each percentage point change in U.S. real GDP growth.
– Canadian Dollar Exchange Rate	94.0 cents US in 2007	Between $30 million and $130 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.
Total Taxation Revenues		
– Revenue Base[1] – Nominal GDP	4.7 per cent growth in 2007–08 5.0 per cent growth in 2007	$620 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax (PIT) Revenues		
– Revenue Base	7.0 per cent growth in 2007–08	
Key Economic Assumptions		
– Wages and Salaries	4.9 per cent growth in 2007	$320 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.6 per cent growth in 2007	
– Unincorporated Business Income	4.9 per cent growth in 2007	$34 million revenue change for each percentage point change in unincorporated business income.
Key Revenue Assumptions		
– Net Capital Gains Income	14.4 per cent increase in 2007	$12 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	5.2 per cent growth in 2007	$16 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2006 Tax-Year Assessments[2]	$21.0 billion	$420 million revenue change for each percentage point change in 2006 PIT assessments.[4]

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2007–08 Assumption**	**2007–08 Sensitivities**
– 2005 Tax-Year and Prior Assessments[2]	$1.0 billion	$20 million revenue change for each percentage point change in 2005 and prior PIT assessments.[4]
Retail Sales Tax Revenues		
– Revenue Base	3.3 per cent growth in 2007–08	
Includes:		
– Taxable Household Spending	2.8 per cent growth in 2007–08	
– Other Taxable Spending	3.8 per cent growth in 2007–08	
Key Economic Assumptions		
– Retail Sales	3.6 per cent growth in 2007	
– Nominal Consumption Expenditure	4.4 per cent growth in 2007	$125 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	4.5 per cent growth in 2007–08	
– Corporate Profits	7.0 per cent growth in 2007	$60 million revenue change for each percentage point change in pre-tax corporate profit growth.
– 2006–07 Tax Assessment Refunds[3]	$1.5 billion payable in 2007–08	$30 million revenue change in the opposite direction for each percentage point change in 2006–07 refunds.[4]
– 2006–07 Tax Payments upon Filing	$1.1 billion receivable in 2007–08	$22 million revenue change for each percentage point change in 2006–07 payments upon filing.[4]
– 2006–07 Tax Assessment Payments	$1.1 billion receivable in 2006–07 and 2007–08	$22 million revenue change for each percentage point change in 2006–07 assessment payments.[4]
Employer Health Tax Revenues		
– Revenue Base	5.1 per cent growth in 2007–08	
– Wages and Salaries	4.9 per cent growth in 2007	$42 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium (OHP) Revenues		
– Revenue Base	4.2 per cent growth in 2007–08	
– Personal Income	5.3 per cent growth in 2007	$24 million revenue change for each percentage point change in personal income growth.
– 2006 Tax-Year Assessments	$2.4 billion in 2006	$48 million revenue change for each percentage point change in 2006 OHP assessments.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2007–08 Assumption**	**2007–08 Sensitivities**
Gasoline Tax Revenues		
– Revenue Base	0.0 per cent growth in 2007–08	
– Gasoline Pump Prices	99.6 cents per litre in 2007	$5 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
– Revenue Base	3.5 per cent growth in 2007–08	
– Real GDP	1.9 per cent growth in 2007	$6 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	17.5 per cent decline in 2007–08	
– Housing Resales	9.0 per cent increase in 2007	$14 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	7.5 per cent growth in 2007	
Canada Health Transfer[5]		
– Ontario Population Share	38.8 per cent in 2007–08	$32 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal PIT Share	42.2 per cent in 2007–08	$8 million revenue change in the opposite direction for each tenth of a percentage point change in Ontario's basic federal PIT share.
Canada Social Transfer[5]		
– Ontario Population Share	38.8 per cent in 2007–08	$10 million revenue change for each tenth of a percentage point change in population share.

1 Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

2 Ontario 2006 Personal Income Tax (PIT) is a forecast estimate because 2006 tax returns have not yet been finalized by the Canada Revenue Agency.

3 Corporation Tax Refunds arising during 2006–07 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2006–07 fiscal year are still being assessed by the Tax Revenue Division of the Ministry of Revenue.

4 Now that the 2006–07 Public Accounts of Ontario have been finalized, any change in 2006 PIT and OHP assessments or 2006–07 Corporations Tax revenues will have a dual effect on 2007–08 revenues through: a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2006–07 Public Accounts.

5 These sensitivities have been updated since the 2007 Ontario Budget to reflect changes to these programs announced in the 2007 federal budget, including a move to determining Canada Social Transfer entitlements based solely on population share.

Section E: Ontario's Expense Outlook

2007–08 IN-YEAR EXPENSE CHANGES

The total expense outlook for 2007–08 is $93,350 million, a net $2,197 million higher than the 2007 Budget Plan and up $2,014 million from the outlook presented in the 2007–08 First Quarter Ontario Finances, reflecting government announcements made since July and new investments that are being announced as part of this *Economic Outlook and Fiscal Review*. Changes in spending are associated with the government taking immediate action to further strengthen Ontario's economic advantage, and help the manufacturing, forestry, agriculture and tourism sectors better weather Ontario's economic challenges.

Summary of In-Year Expense Changes Since Budget **($ Millions)**	**Table 16** **2007–08**
Program Expense Changes:	
Investing in Infrastructure and Transportation	1,360
Agriculture Sector Support	285
Education Investments	124
Initiatives to Enhance Competitiveness	83
Investing in People and Communities	53
Health Sector Investments	39
Children's and Social Services Investments	30
Justice Sector Investments	26
Northern and Rural Investments	14
Other Investments	7
Total Program Expense Changes	**2,021**
Operating Contingency Fund – increase for future investments[1]	149
Operating Contingency Fund – offsets	(137)
Capital Contingency Fund – offsets	(19)
Total Expense Changes This Quarter	**2,014**
Total Expense Changes Reported in First Quarter Ontario Finances	**183**
Total Expense Changes Since Budget	**2,197**

[1] The total increase to the Operating Contingency Fund is $169 million, of which $20 million will be invested in tourism to expand tourism marketing initiatives and has, therefore, been included under the Initiatives to Enhance Competitiveness.

The following is a detailed explanation of the in-year expense changes since the 2007–08 First Quarter Ontario Finances.

Investing in Infrastructure and Transportation

The government is investing an additional $1,360 million in infrastructure and transportation. Key expense changes include:

- An additional $916 million to the **Capital Contingency Fund** for infrastructure priorities.

- An in-year increase of $301 million in the **Ministry of Public Infrastructure Renewal**, including $300 million in municipal infrastructure funding to support priorities such as local roads, bridges, water systems and community infrastructure, and $1 million related to the recent purchase of a downtown Toronto office building for future government accommodation, which is fully offset from the Capital Contingency Fund.

- An increase of $100 million in the **Ministry of Transportation** to support municipal and regional transit projects that are part of MoveOntario 2020 and priorities for Metrolinx (Greater Toronto Transportation Authority).

- An additional net increase of $43 million in the **Ministry of Transportation**, which includes $41 million for various initiatives such as road safety, curbing speeding, highway maintenance and programs targeting greenhouse gas emissions, all offset from the Operating Contingency Fund. An increase of $3 million in capital expense for the transfer of Black Creek property to the City of Toronto and infrastructure improvements, $2 million of which is offset from the Capital Contingency Fund. The total increase in funding is offset by a $1 million transfer to **Colleges** for marine simulator training equipment at the Owen Sound campus of Georgian College.

Agriculture Sector Support

Since the First Quarter Ontario Finances, the government has devoted $285 million for support to the agriculture sector. Key expense changes include:

- An additional $150 million in the **Ministry of Agriculture, Food and Rural Affairs** to provide financial assistance to help the cattle, hog and horticultural farmers manage the effects of current market conditions, as well as supporting transitional and transformational initiatives to strengthen competitiveness.

- An in-year increase in the **Ministry of Agriculture, Food and Rural Affairs** of $135 million for the Risk Management Program to assist grain and oilseed farmers impacted by international subsidies, and additional funding over the medium term of $326 million.

Education Investments

The government has invested an additional $124 million in Ontario's publicly funded education system. Key expense changes since the First Quarter Ontario Finances include:

- An in-year increase of $112 million in the **Ministry of Education school boards' net expense**, including $109 million in education funding enhancements to strengthen the school funding formula, with additional funding of $607 million over the medium term; and an increase of $3 million reflecting a transfer from the Ministry of Children and Youth Services to support and expand Parenting and Family Literacy Centres across the province.

- An additional $11 million in the **Ministry of Education** to provide further support for programs to improve student achievement, offset from the Operating Contingency Fund.

Initiatives to Enhance Competitiveness

The government has invested an additional $83 million since the First Quarter Ontario Finances to enhance Ontario's competitiveness by encouraging innovation and stimulating tourism.

Encouraging Innovation

Investments to encourage innovation amount to about $53 million and include:

- A $50 million increase to the **Capital Contingency Fund**, which will be allocated to initiatives that further strengthen Ontario as a leading innovation-based economy where ideas created by cutting-edge research will reach the global market and serve as a foundation for tomorrow's jobs.

- Additional spending of more than $3 million by the **Ministry of Research and Innovation** to support the development of a Bioindustrial Innovation Centre at the University of Western Ontario's Sarnia–Lambton Research Park, offset from the Capital Contingency Fund.

Investing in Tourism

- The government will invest an additional $30 million in the tourism industry, given the challenges it has faced as a result of the strong Canadian dollar. This investment includes $20 million to expand tourism marketing initiatives that will attract new domestic and international visitors to communities and major attractions across the province, and $10 million to support festivals and events in Ontario's communities.

Investing in People and Communities

Investing in Ontario's people remains a key priority for the government. Since the First Quarter Ontario Finances, the government has invested an additional $53 million in people and their communities. Key expense changes include:

- An increase of $40 million to the **Ministry of Training, Colleges and Universities** for skills development and Rapid Re-employment and Training Services, which help Ontario workers in hard-hit sectors such as manufacturing with training and other employment supports.
- An increase of $7 million in the **Ministry of Training, Colleges and Universities**, which includes funding for the expansion of the Nurse Practitioner and the Midwifery Education Programs. Funding offsets include about $7 million from the Capital Contingency Fund and almost $1 million from the Operating Contingency Fund. **Colleges** net expense increased by $1 million as a result of a transfer from the Ministry of Transportation for the marine simulator training equipment at the Owen Sound campus at Georgian College.
- An additional $5 million to the **Ministry of Economic Development and Trade** to support the Communities in Transition program, for communities facing significant challenges, such as the loss of a major employer, and to help them build a successful future.

Health Sector Investments

Investing in Ontario's health care system remains a key priority for the government. Key expense changes include:

- An in-year increase of $39 million in the **Ministry of Health and Long-Term Care** to introduce the new, voluntary human papillomavirus (HPV) vaccination program for Ontario's 84,000 young women in Grade 8, offset from the Operating Contingency Fund, and additional funding of $78 million over the next two years.

Children's and Social Services Investments

Since the First Quarter Ontario Finances, the government has devoted an additional $30 million to children's and social services programs. Key expense changes include:

- An increase of $32 million in the **Ministry of Community and Social Services**, primarily for funding enhancements to the Developmental Services program and the Family Responsibility Office, the latter offset by $7 million from the Operating Contingency Fund. This increase also includes funding for low-income families to assist with the cost of filters to minimize lead exposure from drinking water, offset by $3 million from the Operating Contingency Fund and by a transfer from the Ministry of the Environment, as well as

enhanced funding to support victims of domestic violence, offset by revenue from the Victims' Justice Fund.

- A net decrease of $2 million in the **Ministry of Children and Youth Services,** largely the result of a $3 million transfer to the Ministry of Education to support and expand Parenting and Family Literacy Centres across the province.

Justice Sector Investments

The government has invested an additional $26 million for justice sector initiatives. These investments include:

- An increase of $22 million to the **Ministry of the Attorney General**, including $12 million for the Smith Inquiry, offset from the Operating Contingency Fund, $4 million for the transition of the Ontario human rights system and $1 million for co-location of various tribunals, both offset from the Capital Contingency Fund. Also included in this amount is $5 million for victims of crime, offset by revenue from the Victims' Justice Fund.

- An additional $4 million in the **Ministry of Community Safety and Correctional Services**, which includes $3 million to establish the Provincial Crime Enforcement Team and support the Safe Schools Police Officer Project, and $1 million to support the Office of the Chief Coroner during the Smith Inquiry, the latter offset from the Operating Contingency Fund.

Northern and Rural Investments

The government continues to support Ontario's northern and rural communities with $14 million in new investments since the First Quarter Ontario Finances. Key expense changes include:

- An increase of $10 million in the **Ministry of Aboriginal Affairs**, primarily for land claim negotiations, the new ministry structure and the preliminary response to the Ipperwash Inquiry, offset from the Operating Contingency Fund.

- An additional $4 million in the **Ministry of Natural Resources**, including an in-year increase of $2 million for resources to start Far North planning processes, and $2 million for the first year of a commitment to plant 50 million trees in southern Ontario by 2020, both offset from the Operating Contingency Fund.

Other Investments

Other key areas of strategic government investments since the First Quarter Ontario Finances include:

- An increase of $20 million in the **Ministry of Revenue** related to the transfer of funding from the Ministry of Finance for administrative costs associated with implementing various Budget initiatives, including the Tobacco Enforcement Initiative and the transfer of Corporate Tax administration to the federal government.

- A net decrease of $19 million in the **Ministry of Finance** as a result of funding transferred to the Ministry of Revenue for administrative costs associated with implementing various Budget initiatives, including the Tobacco Enforcement Initiative and the transfer of the Corporate Tax Administration program to the federal government; and an increase of $1 million to support mediated settlements, offset from the Operating Contingency Fund.

- A net increase of $2 million in the **Ministry of the Environment** resulting from a variety of changes including a transfer from the Ministry of Government and Consumer Services to promote the Go Green Ontario climate change plan; increased funding for initiatives to help address climate change, including the Community Go Green Fund, offset by $2 million from the Operating Contingency Fund; and a transfer to the Ministry of Community and Social Services to support the drinking water filter program to minimize lead exposure from drinking water.

- An in-year increase of $2 million in the **Ministry of Energy** to support the development of low-carbon fuel standards, a pilot project for the use of E-85 fuel in government vehicles and funding for an East-West Grid; all initiatives are part of the Go Green Ontario climate change plan and are offset from the Operating Contingency Fund.

- An additional $2 million in the **Ministry of Tourism** to form the Ontario Vancouver Olympic Committee (VANOC) Secretariat and fund the Own the Podium program, which supports Canadian athletes pursuing podium success at the 2010 Vancouver Olympics, offset from the Operating Contingency Fund.

- An increase of $1 million in the **Office of Francophone Affairs** to create the Office of the Commissioner of French Language Services, offset from the Operating Contingency Fund.

- A decrease of $1 million in the **Ministry of Government and Consumer Services** for a transfer of funding to the Ministry of the Environment to promote the Go Green Ontario climate change plan.

The **Operating Contingency Fund** is a net $32 million higher, reflecting a $169 million increase arising from the revenue improvements identified since the First Quarter Ontario Finances that will be invested in initiatives that further strengthen Ontario's economic advantage. This increase is offset by a $137 million decrease that was allocated to fund ministries' expense changes as outlined.

The **Capital Contingency Fund** has increased by a net $947 million as a result of a $966 million increase associated with revenue improvements identified since the First Quarter Ontario Finances, which will be invested in Ontario's infrastructure. This increase in the Capital Contingency Fund is offset by a decrease of approximately $19 million that was allocated to fund ministries' capital expense changes as outlined.

MEDIUM-TERM EXPENSE OUTLOOK

A key element of the fiscal plan is maintaining a prudent and disciplined approach to fiscal planning by ensuring that, over the medium term, the average annual growth in total expense does not exceed the average annual growth in total revenue. Currently, total expense is projected to grow at an average annual rate of 2.5 per cent, which is less than the 2.6 per cent rate at which revenue is expected to grow on an average annual basis.

Program spending, which includes both operating and capital program expense, increases by $4.5 billion over the medium term, from $84.3 billion in 2007–08 to $88.8 billion in 2009–10. This reflects the government's commitments in its 2007 *Moving Forward Together* campaign platform to continue spending in key priority areas such as health, education, postsecondary education and training, social services, and infrastructure. In 2007–08, spending in health, education and children's and social services will account for almost three-quarters of program spending. Given that much of this Provincial spending is based on assumptions about program utilization, enrolment and caseloads, it is important that the government maintain a focused approach to investing in key public services while remaining prudent and disciplined.

Interest on debt expense is included in the total expense of the Province, and is expected to grow over the next three years primarily due to the increase in net debt needed to finance capital projects. Interest on debt is expected to grow from $9.1 billion in 2007–08 to $9.4 billion in 2009–10.

Total expense over the medium term will increase from $93.4 billion in 2007–08 to $98.2 billion in 2009–10. This represents an increase of $4.8 billion, reflecting the government's commitments in the 2007 *Moving Forward Together* campaign platform to invest in health, education, postsecondary education and training, social services, and infrastructure.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers, such as utilization growth or enrolment and caseload changes. The following sensitivities are guidelines only, and are based on averages for program areas that could change depending on the nature and composition of the potential risk. Revenue risks and sensitivities can be found in Section D: *Ontario's Revenue Outlook.*

Selected Expense Risks and Sensitivities — **Table 17**

Program/Sector	2007–08 Assumption	2007–08 Sensitivities
Health Sector	Annual growth of 6.3 per cent.	One per cent change in health spending: $380 million.
Hospitals Net Expense	Annual growth of 7.7 per cent.	One per cent change in hospitals net expense: $174 million.
Drug Programs	Annual utilization growth of 9.0 per cent.	One per cent change in utilization of all drug programs: $41 million (seniors and social assistance recipients).
Long-Term Care Homes	75,770 funded long-term care home beds. Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $37,700.	One per cent change in number of beds: approximately $29 million.
Home Care	Over 17 million hours of homemaking and support services; 10 million nursing and professional visits.	One per cent change in hours of homemaking and support services: $5 million. One per cent change in nursing and professional visits: $6 million.
Elementary and Secondary Schools[1]	Almost 1.94 million average daily pupil enrolment.	One per cent enrolment increase: $150 million increase in school boards' net expense.
University Students[2]	322,000 full-time undergraduate and graduate students.	One per cent enrolment change: $29 million of net expense.
College Students[1]	154,000 full-time students.	One per cent enrolment change: $13 million.
Ontario Works[2]	199,000 average annual caseload.	One per cent caseload change: $16 million.
Ontario Disability Support Program[2]	222,000 average annual caseload.	One per cent caseload change: $26 million.
Correctional System	3.0 million adult inmate days per year. Average cost of $160 per inmate per day.	One per cent change in inmate days: $5 million.
Interest on Debt	Average cost of 2007–08 borrowing is forecast to be approximately 5.1 per cent.	The 2007–08 impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.

[1] Based on 2007–08.
[2] Based on 2006–07.

Selected Compensation Costs		Table 18
Sector	**Cost of 1% Salary Increase**	**Size of Sector**
OHIP Payments to Physicians[1]	$82 million	Over 22,000 physicians in Ontario, comprising 11,100 family doctors and 11,600 specialists.
Hospital Nurses[1]	$46 million	Over 54,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff[2]	$145 million	Almost 200,000 FTEs including teachers, principals, administrators, and support and maintenance staff.
College Staff[3]	$13 million	About 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[4]	$52 million	Over 64,000 public servants.

1 OHIP Payments to Physicians is based on 2007–08; compensation to Hospital Nurses is based on 2006–07.
2 One per cent increase in salary benchmarks in Grants for Student Needs based on 2007–08 school year.
3 Based on 2006–07.
4 Based on 2005–06, reflects total compensation costs.

CONTINGENT LIABILITIES

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are other risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for

up to $1.5 billion, as at March 31, 2007, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2007, was $2.9 billion. The outstanding loans guaranteed and other contingencies amounted to $2.6 billion at March 31, 2007. A provision of $416 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in the 2006–07 Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2007, there were $8.3 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2007, there were 111 claims outstanding against the Crown that were for amounts over $50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

Section F: Details on Ontario's Finances

Medium-Term Fiscal Plan and Outlook ($ Billions)				**Table 19**
	Actual	Current Outlook		
	2006–07	2007–08	2008–09	2009–10
Revenue	**90.4**	**94.1**	**95.7**	**99.0**
Expense				
Programs	79.3	84.3	85.6	88.8
Interest on Debt	8.8	9.1	9.2	9.4
Total Expense	**88.1**	**93.4**	**94.8**	**98.2**
Reserve	–	0.8	0.9	0.9
Surplus/(Deficit)	**2.3**	**0.0**	**0.0**	**0.0**
Investment in Capital Assets	2.1	3.5	3.5	4.0
Net Debt[1]	141.1	143.1	145.1	147.6
Accumulated Deficit[1]	106.8	106.8	106.8	106.8
Gross Domestic Product (GDP) at Market Prices	557.8	585.7	607.9	632.2
Net Debt as a per cent of GDP	25.3	24.4	23.9	23.3
Accumulated Deficit as a per cent of GDP	19.1	18.2	17.6	16.9

[1] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit. For fiscal 2006–07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year.

Note: Numbers may not add due to rounding.

2007–08 Fiscal Outlook — In-Year Change ($ Millions)			Table 20
	Budget Plan 2007–08	Current Outlook 2007–08	In-Year Change
Revenue	**91,503**	**94,100**	**2,597**
Expense			
Programs	82,030	84,283	2,253
Interest on Debt	9,123	9,067	(56)
Total Expense	**91,153**	**93,350**	**2,197**
Reserve	750	750	–
Surplus/(Deficit)	**(400)**	**0**	**400**

Revenue
($ Millions)

Table 21

	2003–04	2004–05	2005–06	Actual 2006–07	Current Outlook 2007–08
Taxation Revenue					
Personal Income Tax	18,301	19,320	21,041	23,655	24,318
Retail Sales Tax	14,258	14,855	15,554	16,228	16,711
Corporations Tax	6,658	9,883	9,984	10,845	11,421
Employer Health Tax	3,753	3,886	4,197	4,371	4,598
Ontario Health Premium	–	1,737	2,350	2,589	2,730
Gasoline Tax	2,264	2,277	2,281	2,310	2,348
Fuel Tax	681	727	729	723	748
Tobacco Tax	1,350	1,453	1,379	1,236	1,139
Land Transfer Tax	909	1,043	1,159	1,197	1,370
Electricity Payments-In-Lieu of Taxes	627	511	951	757	664
Other Taxes	347	283	292	399	396
	49,148	**55,975**	**59,917**	**64,310**	**66,443**
Government of Canada					
Canada Health and Social Transfer (CHST)	7,345	–	–	–	–
Canada Health Transfer (CHT)	–	5,640	7,148	7,702	8,439
Canada Social Transfer (CST)	–	2,912	3,324	3,478	3,869
CHST Supplements	577	775	584	–	–
Social Housing	528	522	520	532	528
Infrastructure Programs	150	209	285	191	161
Wait Times Reduction Fund	–	242	243	467	468
Medical Equipment Funds	192	387	194	–	–
Other Government of Canada	1,101	1,195	953	1,666	3,245
	9,893	**11,882**	**13,251**	**14,036**	**16,710**
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,106	1,992	2,027	1,945	1,786
Liquor Control Board of Ontario	1,045	1,147	1,197	1,307	1,343
Ontario Power Generation Inc. and Hydro One Inc.	(17)	444	1,107	947	756
Other Government Enterprises	(64)	(5)	(23)	(3)	2
	3,070	**3,578**	**4,308**	**4,196**	**3,887**
Other Non-Tax Revenue					
Reimbursements	1,206	1,241	1,295	1,415	1,448
Electricity Debt Retirement Charge	1,000	997	1,021	991	1,013
Vehicle and Driver Registration Fees	985	976	763	970	1,032
Power Sales	510	610	779	863	831
Other Fees and Licences	594	506	550	624	585
Liquor Licence Revenue	488	489	516	467	455
Net Reduction of Power Purchase Contract Liability	104	236	396	412	398
Sales and Rentals	532	352	465	1,108	430
Royalties	248	278	191	215	217
Miscellaneous Other Non-Tax Revenue	622	721	773	790	651
	6,289	**6,406**	**6,749**	**7,855**	**7,060**
Total Revenue	**68,400**	**77,841**	**84,225**	**90,397**	**94,100**

Total Expense
($ Millions)

Table 22

	2003–04	2004–05	2005–06[1]	Actual 2006–07	Current Outlook 2007–08
Ministry Expense					
Aboriginal Affairs	15	21	50	25	38
Agriculture, Food and Rural Affairs	843	799	865	800	880
Attorney General	1,225	1,204	1,287	1,347	1,409
Board of Internal Economy	196	145	150	163	245
Children and Youth Services	2,597	2,788	3,267	3,260	3,669
Citizenship and Immigration	55	64	92	116	86
Community and Social Services	5,972	6,361	6,718	7,182	7,373
Community Safety and Correctional Services	1,690	1,732	1,750	1,877	1,931
Culture	327	344	475	410	350
Democratic Renewal Secretariat	–	2	2	6	8
Economic Development and Trade	76	70	176	199	332
Education	350	361	440	423	451
School Boards' Net Expense	9,423	10,274	10,886	11,290	12,102
Energy	169	194	207	229	312
Environment	263	305	274	314	327
Executive Offices	24	19	19	19	18
Finance	691	539	583	569	445
Ontario Municipal Partnership Fund/Community Reinvestment Fund	651	626	714	758	917
Francophone Affairs, Office of	3	3	4	4	5
Government and Consumer Services	530	962	625	856	885
Health and Long-Term Care[2]	16,218	17,555	17,841	19,162	20,207
Hospitals' Net Expense[2]	12,946	13,877	14,816	16,145	17,384
Health Promotion	202	236	290	391	373
Intergovernmental Affairs	6	13	10	11	9
Labour	117	129	141	147	161
Municipal Affairs and Housing	634	770	926	843	760
Natural Resources	623	559	628	734	782
Northern Development and Mines	189	320	337	318	356
Public Infrastructure Renewal[3]	(35)	41	107	426	444
Research and Innovation	160	236	332	316	328
Revenue	533	523	442	563	598
Small Business and Entrepreneurship	15	20	26	25	26
Tourism	212	167	210	204	209
Training, Colleges and Universities	2,811	3,293	3,504	4,110	4,452
Colleges' Net Expense	1,090	1,289	1,185	1,273	1,454
Transportation	1,800	1,815	2,188	2,733	2,056
Other Expense					
Capital Contingency Fund	–	–	–	–	1,115
Community Reinvestment Fund One-Time Transition Funding	–	233	–	–	–
Electricity Consumer Price Protection Fund	253	–	–	–	–
Interest on Debt	9,604	9,368	9,019	8,831	9,067
Move Ontario	–	–	1,232	6	–
One-Time and Extraordinary Assistance to Agricultural Sector	64	601	282	278	359
Operating Contingency Fund	–	–	–	–	614
Pension and Other Employee Future Benefits	309	458	729	557	533
Power Purchases	797	840	803	863	831
Teachers' Pension Plan	235	240	295	345	349
Year-End Savings	–	–	–	–	(900)
Total Expense	**73,883**	**79,396**	**83,927**	**88,128**	**93,350**

[1] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

[2] The 2003–04 expenses for Health and Long-Term Care and Hospitals include $824 million of SARS-related and major one-time health costs. The 2007–08 figures reflect a change in the presentation of expense in the Health Sector to be consistent with the 2006–07 Public Accounts. This change in presentation does not affect total expense.

[3] Credit expense amount relates to consolidation adjustments between Ontario Realty Corporation and ministry to reflect net spending for the year.

2007–08 Infrastructure Expenditures
($ Millions) **Table 23**

Sector	Total Infrastructure Expenditures 2006–07 Actual	2007–08 Current Outlook: Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure[1]	Total Infrastructure Expenditures
Transportation				
Transit	1,624	598	493	1,091
Highways	1,426	1,549	154	1,703
Other Transportation	76	5	28	33
Health				
Hospitals	375	623	5	628
Other Health	183	50	176	226
Education				
School Boards	1,000	–	1,016	1,016
Colleges	73	184	0	184
Universities	52	–	77	77
Water/Environment	360	32	230	262
Municipal and Local Infrastructure[2]	473	2	549	551
Justice	102	89	47	136
Other	682	287	1,164	1,451
Total[3]	**6,426**	**3,419**	**3,939**	**7,358**

1 Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's Total Expenses in Table 22.

2 Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

3 Total expenditures include $86 million in flow-throughs in Investment in Capital Assets (for provincial highways) and $160 million in flow-throughs in Transfers and Other Expenditures in Infrastructure ($28 million in Transportation, $45 million in Water/Environment, $87 million in Municipal and Local Infrastructure).

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1998–99	1999–00	2000–01
Financial Transactions			
Revenue	**56,050**	**65,042**	**66,294**
Expense			
Programs	49,036	53,347	53,519
Interest on Debt	9,016	11,027	10,873
Total Expense	**58,052**	**64,374**	**64,392**
Reserve	–	–	–
Surplus/(Deficit)	**(2,002)**	**668**	**1,902**
Net Debt[3, 4]	**114,737**	**134,398**	**132,496**
Accumulated Deficit[3]	**114,737**	**134,398**	**132,496**
Gross Domestic Product (GDP) at Market Prices	377,897	409,020	440,759
Personal Income	304,652	321,702	347,653
Population (000s)	11,367	11,506	11,685
Net Debt per Capita (dollars)	10,094	11,681	11,339
Personal Income per Capita (dollars)	26,801	27,959	29,752
Total Expense as a per cent of GDP	15.4	15.7	14.6
Interest on Debt as a per cent of Revenue	16.1	17.0	16.4
Net Debt as a per cent of GDP	30.4	32.9	30.1
Accumulated Deficit as a per cent of GDP	30.4	32.9	30.1

[1] Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

[2] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

[3] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these Broader Public Sector entities. For fiscal 2006–07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year.

[4] Net Debt is restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

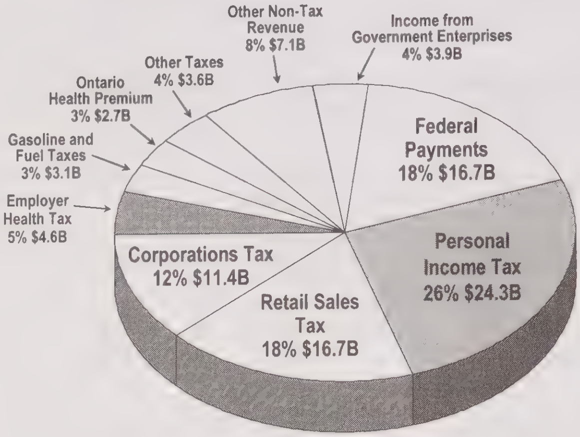
Sources: Ontario Ministry of Finance and Statistics Canada.

Table 24

2001–02	2002–03[1]	2003–04	2004–05	2005–06[2]	Actual 2006–07	Current Outlook 2007–08
66,534	**68,891**	**68,400**	**77,841**	**84,225**	**90,397**	**94,100**
55,822	59,080	64,279	70,028	74,908	79,297	84,283
10,337	9,694	9,604	9,368	9,019	8,831	9,067
66,159	**68,774**	**73,883**	**79,396**	**83,927**	**88,128**	**93,350**
–	–	–	–	–	–	750
375	**117**	**(5,483)**	**(1,555)**	**298**	**2,269**	**0**
132,121	**132,647**	**138,816**	**140,921**	**141,928**	**141,100**	**143,079**
132,121	**118,705**	**124,188**	**125,743**	**109,155**	**106,776**	**106,776**
453,701	477,763	493,081	516,792	536,908	557,784	585,673
361,187	369,420	381,127	399,828	417,835	438,030	461,037
11,898	12,102	12,263	12,420	12,565	12,705	12,804
11,104	10,961	11,320	11,346	11,295	11,106	11,175
30,357	30,526	31,079	32,192	33,253	34,476	36,008
14.6	14.4	15.0	15.4	15.6	15.8	15.9
15.5	14.1	14.0	12.0	10.7	9.8	9.6
29.1	27.8	28.2	27.3	26.4	25.3	24.4
29.1	24.8	25.2	24.3	20.3	19.1	18.2

Composition of Current Revenue Outlook 2007–08

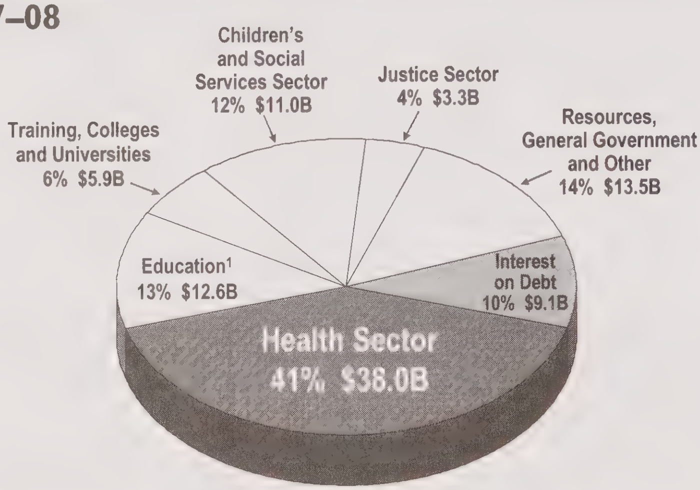
CHART 16



Note: Numbers may not add due to rounding.

Composition of Current Total Expense Outlook 2007–08

CHART 17

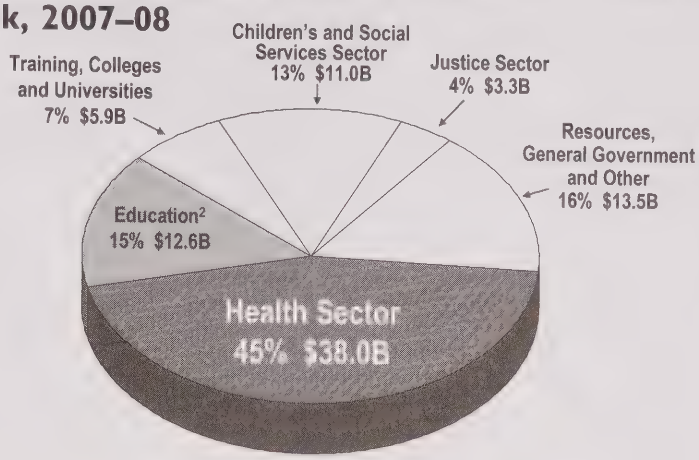


[1] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Current Program Expense[1] Outlook, 2007–08

CHART 18



[1] Program expense equals total expense minus interest on debt.
[2] Excludes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

ANNEX IV: BORROWING AND DEBT MANAGEMENT

LONG-TERM PUBLIC BORROWING

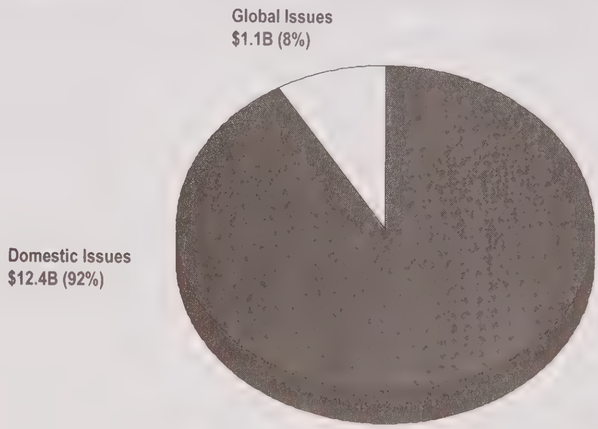
The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2007–08 is projected at $17.7 billion, down $1.1 billion from the $18.8 billion estimated in the 2007 Budget Plan.

As at September 30, 2007, the Province had raised approximately $9.5 billion. As at December 6, 2007, the Province had raised an additional $4.0 billion, for a total of $13.5 billion, with $4.2 billion remaining to be borrowed.

Bond markets have been very volatile in recent months, but the Province continues to have steady access to the domestic bond market due to both investor confidence in Ontario and the liquidity provided by its benchmark bond issues.

Borrowing — All Markets CHART 1

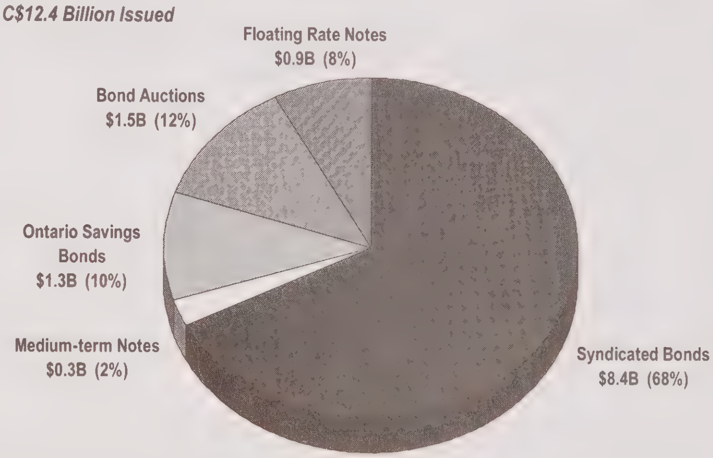
C$13.5 Billion Issued



Source: Ontario Financing Authority (December 6, 2007).

Borrowing — Domestic Market CHART 2

C$12.4 Billion Issued



Source: Ontario Financing Authority (December 6, 2007).

Approximately $12.4 billion, or 92 per cent, of the borrowing requirement was raised in the domestic market, using the following instruments:

- syndicated bonds
- bond auctions
- Ontario Savings Bonds
- floating rate notes
- medium-term notes.

Internationally, the Province issued one five-year US$1 billion global bond issue.

The Province will continue to maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for opportunities to diversify its borrowing program. The Province typically targets 25 per cent of borrowing from international markets. So far this fiscal year, eight per cent has been raised internationally as borrowing costs have been much higher abroad.

2007–08 Borrowing Program **Table 1**
($ Billions)

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.4	0.0	(0.4)
Non-cash Adjustments	(0.5)	(0.9)	(0.5)
Investment in Capital Assets	3.3	3.4	0.1
Net Loans/Investments	1.2	2.7	1.5
Debt Maturities	14.4	14.2	(0.2)
Debt Redemptions	0.9	1.0	0.1
Total Funding Requirement	**19.7**	**20.4**	**0.7**
Canada Pension Plan Borrowing	(0.4)	(0.4)	0.1
Decrease/(Increase) in Short-Term Borrowing	(0.6)	(1.3)	(0.8)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.0)	(1.0)
Total Long-Term Public Borrowing Requirement	**18.8**	**17.7**	**(1.1)**

Note: Numbers may not add due to rounding.

The total long-term public borrowing requirement for 2007–08 remains at $17.7 billion as in the First Quarter Ontario Finances, down $1.1 billion from the 2007 Budget Plan.

A major in-year change from the Budget Plan is a $1.5 billion increase in net loans/investments, of which $0.9 billion represents loans to Ontario Power Generation Inc. (OPG) and $0.7 billion for the transfer of third-party asset-backed commercial paper (ABCP) to a long-term investment portfolio, offset by a $0.1 billion payment by the Ontario Power Authority (OPA) towards its line

of credit with the Province. Other in-year changes include a $0.5 billion change in non-cash adjustments and a $1.0 billion decrease in cash and cash equivalents, both attributable to a higher-than-forecast surplus in 2006–07, resulting in lower cash needs.

A notable financing activity in the second quarter was the transfer of $0.7 billion in third-party ABCP to a long-term investment portfolio, offset by an increase in short-term borrowing. The ABCP transfer decision was made due to ongoing deliberations resulting from the Montreal Accord, which the Province and a majority of third-party ABCP investors joined in August 2007. The Accord is an agreement to determine a process for the orderly restructuring of the third-party ABCP market. The agreement, originally set to expire on October 15, 2007, was extended to December 14, 2007.

The Province does not want to pre-judge the outcome of the Montreal Accord or how markets will trade afterwards, but it is estimated that the potential provincial writedown will be less than $100 million out of its $720 million of ABCP holdings. This amount will be offset by in-year savings on the Province's other interest on debt costs. Ontario's potential ABCP writedown will not have any material impact on the fiscal plan.

Medium-Term Borrowing Outlook **Table 2**
($ Billions)

	2007–08	2008–09	2009–10
Deficit/(Surplus)	0.0	0.0	0.0
Non-Cash Adjustments	(0.9)	(0.8)	(0.7)
Investment in Capital Assets	3.4	3.5	4.0
Net Loans/Investments	2.7	1.3	0.5
Debt Maturities:			
Currently Outstanding	14.2	19.9	14.6
Incremental Impact of Future Financing	0.0	0.0	0.5
Debt Redemptions	1.0	0.7	0.7
Total Funding Requirement	**20.4**	**24.5**	**19.6**
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease/(Increase) in Short-Term Borrowing	(1.3)	(0.6)	0.8
Increase/(Decrease) in Cash and Cash Equivalents	(1.0)	(0.4)	(0.7)
Total Long-Term Public Borrowing Requirement	**17.7**	**22.9**	**19.0**

Note: Numbers may not add due to rounding.

Refinancing maturing debt remains the primary component of the medium-term borrowing outlook. Debt maturities for the Province and the OEFC are projected at $14.2 billion in 2007–08, $19.9 billion in 2008–09 and $15.1 billion in 2009–10.

The Province closely monitors the level of annual maturities on a yearly basis. The year-to-year variation in debt maturities largely reflects past borrowing activities.

DEBT

The Province's total debt as at September 30, 2007 was $160.8 billion. Total debt, which represents all borrowing without offsetting financial assets, is projected to be $162.9 billion as at March 31, 2008, compared to $157.3 billion as at March 31, 2007.

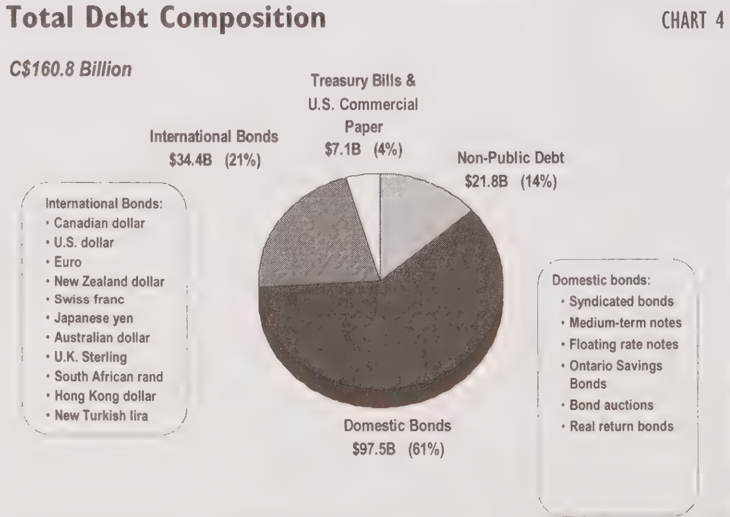
Sources: Ontario Public Accounts 1993–2007, Ontario Ministry of Finance and Ontario Financing Authority (September 30, 2007).

The projected increase in total debt is mainly due to the government's capital investments in key priority areas and loans to school boards for capital projects. Total debt, but not net debt, is also expected to increase due in part to short-term borrowing being used to maintain cash levels and fund the transfer of the Province's ABCP holdings to a long-term investment portfolio. The Province could have opted to reduce cash levels instead of increasing short-term borrowing but decided in the current credit environment it is more prudent to keep cash and liquidity levels high.

Ontario's net debt — the difference between the Province's total liabilities and total financial assets — is projected to be $143.1 billion as at March 31, 2008, compared to $141.1 billion as at March 31, 2007. The increase in net debt is primarily a result of the government's capital investments.

TOTAL DEBT COMPOSITION

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.



Source: Ontario Financing Authority (September 30, 2007).

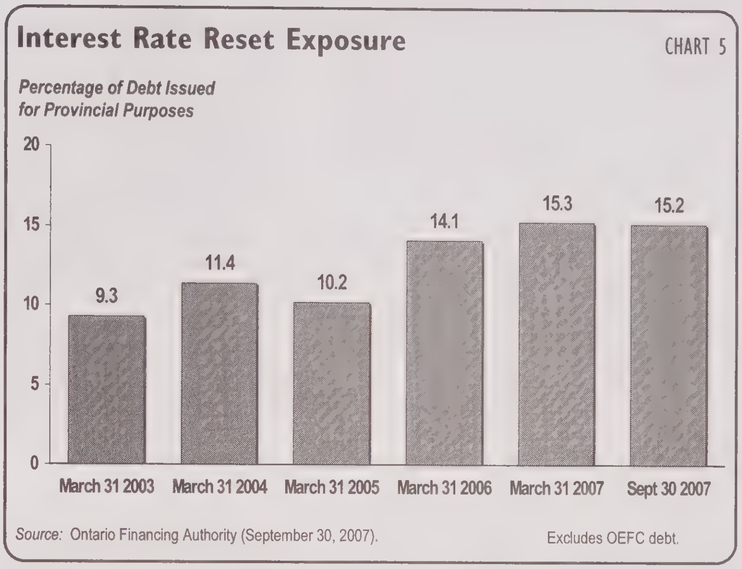
Public debt totals $139.0 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has $21.8 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt

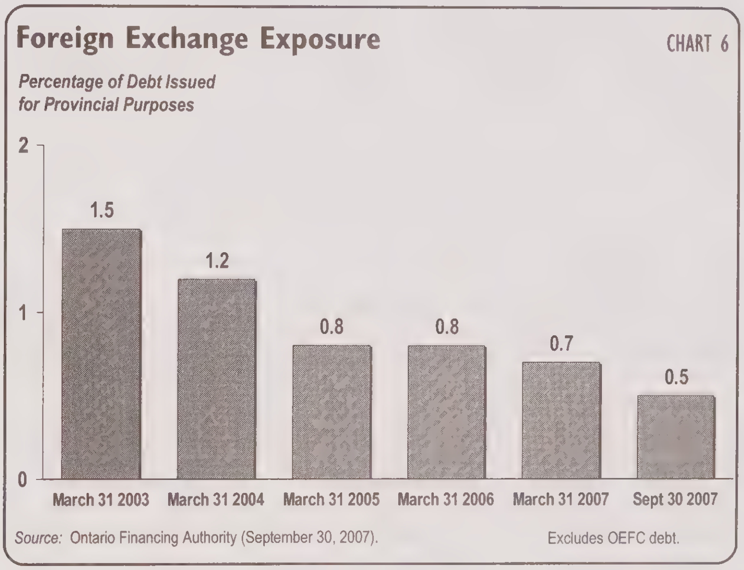
consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

DEBT MANAGEMENT

The Province limits itself to a maximum interest rate reset exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

As at September 30, 2007, interest rate reset exposure was 15.2 per cent and foreign exchange exposure was 0.5 per cent.

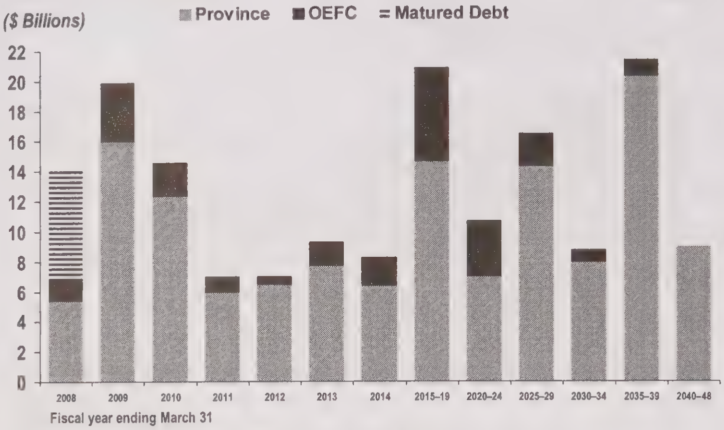




DEBT MATURITIES

The most significant component of the borrowing program is the refinancing of maturing debt. The Province will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities CHART 7

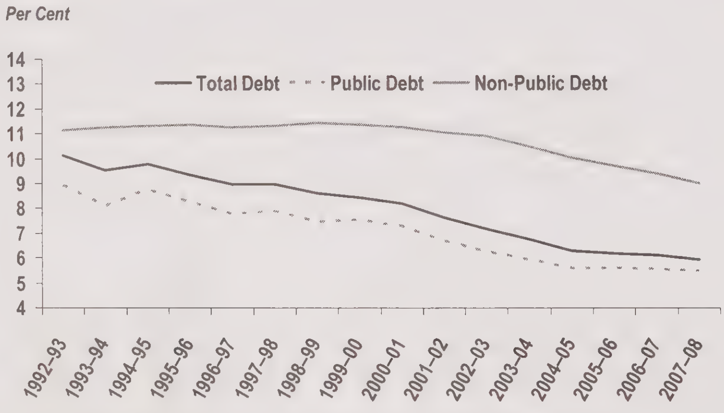


Excludes short-term debt and other liabilities and the incremental impact of future financing.
Assumes issues with options will be retired at the earliest possible date.
Source: Ontario Financing Authority (September 30, 2007).

COST OF DEBT

The effective interest rate (on a weighted-average basis) on total debt as at September 30, 2007 was 5.95 per cent, compared to 6.02 per cent as at March 31, 2007. For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

Effective Interest Rate (Weighted Average) of Debt CHART 8



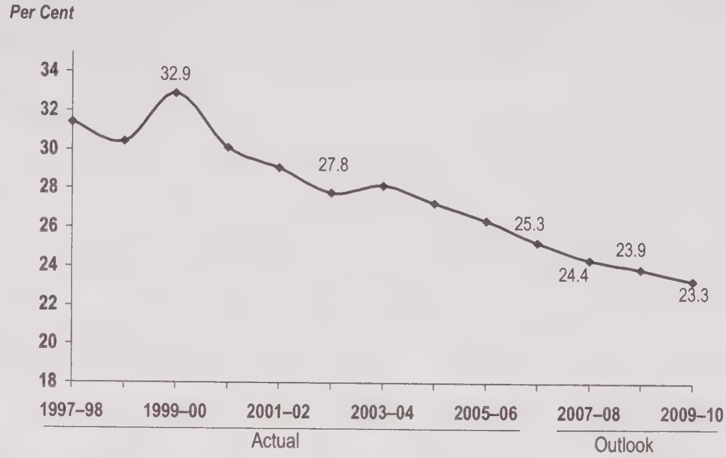
Sources: Ontario Public Accounts 1993–2007 and Ontario Financing Authority (September 30, 2007).

The effective interest rate on public debt was 5.47 per cent as at September 30, 2007, compared to 5.48 per cent as at March 31, 2007. The effective interest rate on non-public debt was 9.00 per cent as at September 30, 2007, compared to 9.23 per cent as at March 31, 2007.

NET DEBT-TO-GDP

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of the OEFC. Since then, Ontario's net debt-to-GDP ratio has trended downward, declining to 25.3 per cent in 2006–07. The current outlook projects a ratio of 24.4 per cent in 2007–08, 23.9 per cent in 2008–09 and 23.3 per cent in 2009–10.

Net Debt-to-GDP CHART 9



Source: Ontario Ministry of Finance (September 30, 2007).

GLOSSARY OF FINANCIAL TERMS USED IN ANNEX IV

Note: *The descriptions of the terms in the glossary are solely intended for the assistance of readers of the* 2007 Economic Outlook and Fiscal Review. *The glossary and the descriptions of the terms in the glossary are not intended to affect or alter the meaning of any terms under law.*

Amortization: the portion of an asset's cost allocated to an accounting period as a result of writeoff over its estimated useful life.

Asset-Backed Commercial Paper (ABCP): consists of short-term investments secured by a pool of assets such as accounts receivable, auto loans and credit-card receivables that are structured into a trust. The administrator of the trust provides credit enhancement through a combination of cash, deferred payment arrangements, letters of credit and credit derivatives.

Canada Pension Plan (CPP) Borrowing: the Province has the option of borrowing from the Canada Pension Plan Investment Board (CPPIB) as a source of long-term borrowing.

Debt: an obligation resulting from the borrowing of money.

Debt Maturities: total forecast amount of debt due for repayment on specific dates.

Debt Redemptions: total forecast amount of bond issues expected to be redeemed prior to maturity. Debt redemptions primarily relate to Ontario Savings Bonds.

Debt Term: remaining term to maturity of long-term debt.

Domestic Bonds: debt securities issued in the domestic market, settling through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash, an asset that is convertible to cash, a contractual right to receive cash or another financial asset from another party, a temporary or portfolio investment, and a financial claim on an outside organization or individual and inventory.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash or other short-term liquid low-risk instruments that are readily convertible to cash typically within three months or less.

Interest on Debt Expense: the amount reported as an expense for borrowed money. Interest is calculated as a percentage of the amount of debt for each period of time.

Investment in Capital Assets: the cost of acquiring or upgrading major tangible capital assets owned by the Province and its consolidated organizations during the year, including land, buildings, highways and bridges.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

Net Debt: the difference between the Province's total liabilities and financial assets.

Net Debt-to-GDP Ratio: a measurement of the government's debt as a percentage of gross domestic product (GDP). It is a measure of the net debt in relation to the economy and capacity to carry and repay debt.

Net Loans/Investments: the total funds paid by the Province towards loans/investments netted against loan repayments.

Non-Cash Adjustments: adjustments required to determine the cash flows resulting from operating activities. Non-cash adjustments include changes in balance-sheet accounts such as accounts receivable and payable, prepaid expenses and deferred revenue. Amortization of capital assets is also a non-cash adjustment.

Non-Public Debt: consists of debt instruments issued to public-sector pension funds in Ontario and the CPPIB. This debt is not marketable and cannot be traded.

Syndicated Bond Issues: debt securities that are underwritten by a group of investment dealers.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Treasury Bills: short-term debt instruments issued by governments on a discount basis.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.

ANNEX V:
TRANSPARENCY IN TAXATION

TRANSPARENCY IN TAXATION

Tax expenditure reporting is an important element of improved fiscal accountability. It increases fiscal transparency by providing a complete picture of revenue forgone in the tax system.

STRUCTURE OF THE REPORT

This report provides estimates of revenue forgone in 2007 with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge.

A description of each tax provision was provided in the government's first Transparency in Taxation report, presented in Annex III of the *2005 Ontario Economic Outlook and Fiscal Review*. Descriptions of tax provisions that had been introduced or changed since 2005 were provided in Annex V of the *2006 Ontario Economic Outlook and Fiscal Review*. Please refer to the 2005 and 2006 reports for those descriptions.

Electronic copies of the *2005* and *2006 Ontario Economic Outlook and Fiscal Review* are available via the Internet at:
www.fin.gov.on.ca/english/budget/fallstatement/2005/05fs-paperc.html and
www.fin.gov.on.ca/english/budget/fallstatement/2006/06fs-papere.html.

This report includes descriptions only for tax provisions that are new or have been modified since the *2006 Ontario Economic Outlook and Fiscal Review*. The descriptions are intended to provide a basic understanding of the provisions and do not replace the relevant legislation or regulations.
The estimates do not reflect the impact of tax measures proposed in the *2007 Ontario Economic Outlook and Fiscal Review* (see Annex II: *Enhancing Ontario's Tax Competitiveness*).

SCOPE

Given the absence of a universally accepted definition of a "tax expenditure," this report continues the broad approach adopted in previous reports of listing estimates of forgone revenue that could potentially be included under a broad-based tax system.

Personal and Corporate Income Tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the Personal Income Tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario currently collects and administers its own Corporate Income Tax, Minimum Tax, Capital Tax and Special Additional Tax on life insurers. However, pursuant to a Memorandum of Agreement with the federal government dated October 6, 2006, Ontario enacted legislation to enable the federal government to collect and administer these taxes, effective for taxation years ending after 2008, once a tax collection agreement has been signed by both governments.

METHOD

The estimates in this report were developed using the latest available taxation or economic data, forecast to the 2007 calendar year. The data used to estimate the values of the tax provisions come from a variety of sources. Revisions to the underlying data, as well as improvements to the estimation method, may result in changes to the estimated value of a provision in future publications. As well, some tax provision estimates are particularly sensitive to economic conditions or other variables and those values could fluctuate significantly from year to year.

It is important to note that the estimates in this report are not intended to represent the potential revenue gain for the Province if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change, behavioural responses, the interaction among various tax provisions, or any modifications in policy that might reasonably accompany the change. As a result, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures.

Tax expenditure estimates of less than $1 million are denoted by the letter "s" (small). This report also includes tax provisions for which relevant data from the tax system are not currently available to the Ministry of Finance. Although estimates may not be available, these items are listed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario's tax expenditure estimates.

PERSONAL INCOME TAX

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business provisions listed here are for unincorporated businesses.

Personal Income Tax[1] **Table 1**

Tax Provisions	2007 Estimates[2] ($ Millions)
Ontario Non-Refundable Tax Credits	
Adoption Expense Credit	s
Age Credit	260
Amounts Transferred from Spouse or Common-law Partner	25
Basic Personal Credit	4,275
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	550
Caregiver Credit	15
Charitable Donations Credit[3]	560
Disability Credit	80
Eligible Dependant Credit	90
Employment Insurance (EI) Premiums Credit	195
Infirm Dependant Credit	1
Medical Expense Credit	110
Ontario Overseas Employment Tax Credit	6
Pension Income Credit	115
Spouse or Common-law Partner Credit	175
Student Loan Interest Credit	9
Tuition Fee and Education Credits	290
Ontario Tax Reduction (OTR)	
OTR — Basic Reduction	185
OTR — Reduction for Dependent Children Under 19	190
OTR — Reduction for Disabled or Infirm Dependants	9
OTR — Total	315
Other Ontario Tax Credits	
Ontario Focused Flow-through Share Tax Credit	3
Ontario Political Contribution Tax Credit	10

Personal Income Tax[1] — Table 1

Tax Provisions	2007 Estimates[2] ($ Millions)
Ontario Property and Sales Tax Credits (OPSTCs)	
OPSTCs — Non-seniors	435
OPSTCs — Seniors[4]	545
OPSTCs — Total[4]	980
Ontario Labour-Sponsored Investment Fund and Employee Ownership Tax Credits[5]	
Employee Ownership (EO) Tax Credit	s
Labour-Sponsored Investment Fund (LSIF) Tax Credit	20
Research-oriented Investment Fund (ROIF) Tax Credit	s
Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government	
Business	
Items for Which an Estimate is not Available	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
Employment	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction for Military and Police Deployed to High-risk International Missions	4
Deduction of Other Employment Expenses	270
Deduction of Union and Professional Dues	140
Employee Stock Options	170
Moving Expense Deduction	15
Northern Residents' Deductions	1
Items for Which an Estimate is not Available	
Deductions for Tradespersons' and Apprentice Vehicle Mechanics' Tools	
Deductions for Artists and Musicians	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Increased Deduction for Meal Expenses of Truck Drivers	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	
Special Tax Computations for Certain Retroactive Lump-sum Payments	

Personal Income Tax[1]

Table 1

Tax Provisions	2007 Estimates[2] ($ Millions)
Farming and Fishing	
Items for Which an Estimate is not Available	
Cash-basis and Flexibility in Inventory Accounting	
Deduction of Farm Losses for Part-time Farmers	
Deferral of Income for Farmers	
Net Income Stabilization Account for Farmers	
Investment	
$750,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares[3]	170
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	255
Deduction of Resource-related Expenditures	100
Partial Inclusion of Capital Gains	1,140
Items for Which an Estimate is not Available	
Capital Gains Exemptions — $1,000 on Personal-use Property and $200 on Foreign Exchange Transactions	
Deduction of Limited Partnership Losses	
Deferral of Capital Gains Through Five-year Reserve	
Deferral of Capital Gains Through Rollovers	
Deferral of Capital Gains Through 10-year Reserve for Farming or Fishing Property and Small Business Shares	
Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust	
Exemption for Capital Gains Arising from Certain Donations	
Non-taxation of Capital Gains on Principal Residences	
Taxation of Capital Gains Upon Realization	
Non-taxable Income	
Guaranteed Income Supplement and Allowance Benefits	25
Social Assistance Benefits	25
Workers' Compensation Benefits	160
Items for Which an Estimate is not Available	
Certain Government Pensions and Allowances	
Damages With Respect to Personal Injury or Death	
Death Benefits of Up to $10,000	

Personal Income Tax[1] — Table 1

Tax Provisions	2007 Estimates[2] ($ Millions)
Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Status Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	
Special Circumstances	
Child Care Expense Deduction	160
Pension Income Splitting	170
Treatment of Alimony, Maintenance and Child Support Payments	35
Items for Which an Estimate is not Available	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
Tax-deferred Savings	
Registered Pension Plans (RPP) — Deduction for Contributions	660
Registered Retirement Savings Plans (RRSP) — Deduction for Contributions	1,940
Items for Which an Estimate is not Available	
Deferred Profit-sharing Plans	
Registered Education Savings Plans (RESP)	
RPP and RRSP — Non-taxation of Investment Income	

1 Estimates do not include the impact of revenue forgone from Personal Income Tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.
2 Estimates are based on 2004 tax-filer data forecast to represent the 2007 taxation year, unless otherwise noted.
3 Estimate is also based on federal estimates for provisions that have changed since 2006.
4 Estimate includes the enrichment of the income threshold for senior couples to $23,820 proposed in the 2007 Ontario Budget.
5 Estimates are based on tax-sharing statements.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

The following Personal Income Tax provisions have been introduced or changed since 2006.

Ontario Non-Refundable Tax Credits

The non-refundable tax credits listed in the following table are based on amounts that are adjusted for inflation each year.

Amounts on Which Indexed Non-Refundable Tax Credits Are Based ($)	Table 2
Non-Refundable Tax Credits	
Adoption Expense Credit, maximum claim	10,435
Age Credit, maximum claim	4,176
Reduced by 15 per cent of individual's net income in excess of	31,088
Basic Personal Credit	8,553
Caregiver Credit, maximum claim	4,031
Reduced by dependant's net income in excess of	13,792
Disability Credit	6,910
Eligible Dependant Credit, maximum claim	7,262
Reduced by dependant's net income in excess of	726
Dependant's net income less than	7,988
Infirm Dependant Credit, maximum claim	4,031
Reduced by dependant's net income in excess of	5,731
Medical Expense Credit	
Qualifying medical expenses in excess of the lesser of three per cent of net income and	1,936
Qualifying medical expenses of other dependant, maximum claim	10,435
Pension Income Credit, maximum claim	1,183
Spouse or Common-law Partner Credit, maximum claim	7,262
Not exceeding spouse's or common-law partner's net income deducted from	7,988
Tuition Fee and Education Credits	
Education Credit, full time (per month)	461
Education Credit, part time (per month)	138
Maximum transfer	5,914

Other Ontario Tax Credits

Ontario Property and Sales Tax Credits (OPSTCs) —The Property Tax Credit is the lesser of occupancy cost and a basic property tax credit amount plus 10 per cent of occupancy cost. Occupancy cost is property tax or 20 per cent of rent paid on an individual's principal residence plus $25 if residing in a student's residence. The basic property tax credit amount is $250 for non-senior individuals or couples and $625 for senior individuals or couples. The Sales Tax Credit is $100 for an individual plus $100 for a spouse or common-law partner and $50 for each dependent child aged 18 or under. The credits for non-seniors are jointly reduced by two per cent of adjusted family net income in excess of $4,000; the credits for seniors are jointly reduced by four per cent of adjusted family net income in excess of $22,000 for single seniors and $23,090 for senior couples, which the 2007 Ontario Budget proposed to increase. The maximum OPSTCs are $1,000 for non-seniors and $1,125 for seniors. The estimate includes the proposed increase to the income threshold for senior couples, which is expected to be $23,820 for 2007.

Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government

Employment

Item for Which an Estimate is not Available

Increased Deduction for Meal Expenses of Truck Drivers — In general, employees may deduct only 50 per cent of otherwise allowable business-related meal expenses. Effective March 19, 2007, long-haul truck drivers may deduct 60 per cent of meal expenses incurred during eligible periods of travel. The deductible portion will increase each year, rising to 80 per cent after 2010. The increased deduction for meal expenses of truck drivers parallels the 2007 federal budget initiative.

Investment

$750,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares — A $500,000 lifetime capital gains exemption is available for gains from the disposition of qualified farming or fishing property and small business shares. The cumulative exemption increases to $750,000 for capital gains realized by an individual on dispositions of qualified property on or after March 19, 2007. This increase parallels the 2007 federal budget initiative.

Item for Which an Estimate is not Available

Exemption for Capital Gains Arising from Certain Donations — Capital gains on gifts of publicly listed securities and ecologically sensitive land donated to public charities are exempt from tax. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery. Effective March 19, 2007, capital gains arising from gifts of publicly listed securities to private foundations are exempt from tax. In addition, when an arm's-length employee acquires a publicly listed security under an option granted by the employer and donates it to a private foundation within 30 days, the associated employment benefit is exempt from tax. Previously, capital gains and income on such donations were subject to the normal 50 per cent inclusion rate for capital gains. These changes parallel the 2007 federal budget initiative.

Special Circumstances

Pension Income Splitting — Starting in the 2007 taxation year, individuals can allocate up to half of their qualifying pension income to their spouse or common-law partner and can claim a deduction from income for the allocated amount. The person to whom the amount is allocated must include the allocated amount in income, and can claim the pension income credit to the extent that the allocated amount is eligible, based on the transferee's age, not the age of the pensioner.

Allocating pension income to a lower-income spouse or common-law partner may increase tax expenditures for measures claimed by those individuals, such as the age credit or pension income credit. At the same time, pension income splitting may reduce tax expenditures for other measures provided by the tax system to recognize that an individual's income can support other family members. Such measures include the spouse or common-law partner credit and the transfer of unused amounts from a spouse or common-law partner (e.g., age credit, pension income credit, disability credit, tuition fee and education credits). This happens because increasing the income reported by a lower-income spouse or common-law partner reduces the amounts that can be claimed by the higher-income spouse or common-law partner in respect of these measures.

CORPORATE TAX

Estimates of tax provisions relating to the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 3.

Corporate Tax — Table 3

Tax Provisions	2007 Estimates[1] ($ Millions)
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit[2]	70
Co-operative Education Tax Credit[2]	9
Ontario Book Publishing Tax Credit	2
Ontario Business Research Institute Tax Credit	4
Ontario Computer Animation and Special Effects Tax Credit	14
Ontario Film and Television Tax Credit	120
Ontario Innovation Tax Credit	200
Ontario Interactive Digital Media Tax Credit	8
Ontario Production Services Tax Credit	37
Ontario Sound Recording Tax Credit	1
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	6
Assets Used to Generate Clean Energy	s
Manufacturing and Processing (M&P) and Resource Sector Credit	285
Non-taxation of the Federal Investment Tax Credit[3,4,5]	220
Ontario Current Cost Adjustment[4]	7
Ontario Depletion Allowance[4]	s
Ontario New Technology Tax Incentive[4]	s
Ontario Political Contributions[4]	s
Ontario Resource Allowance[4,6,7]	100
Small Business Deduction[8]	1,090

Corporate Tax

Table 3

Tax Provisions	2007 Estimates[1] ($ Millions)
Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government	
Allowable Business Investment Losses[9,10]	3
Deductibility of Charitable Donations[9]	140
Deductibility of Gifts to the Crown[9]	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land[9]	s
Deferral of Income for Farmers[8]	s
Holdback on Progress Payments to Contractors[9]	16
Non-taxation of Non-profit Organizations[9]	130
Partial Inclusion of Capital Gains[9]	1,300
Items for Which an Estimate is not Available	
Accelerated Write-off of Capital Assets and Resource-related Expenditures	
Temporary Incentive for Manufacturing and Processing (M&P) Machinery & Equipment[11]	
Cash-basis Accounting and Flexibility in Inventory Accounting	
Deductibility of Countervailing and Anti-dumping Duties	
Deferral Through Capital Gains Rollovers	
Deferral Through Use of Billed-basis Accounting by Professionals	
Donation of Medicines for the Developing World	
Exemption for Capital Gains Arising from Certain Donations	
Expensing of Advertising Costs	
Non-taxation of Provincial, Municipal and Federal Crown Corporations	
Non-taxation of Registered Charities	
Tax Exemption on Income of Foreign Affiliates of Canadian Corporations	
Taxation of Capital Gains upon Realization	
Capital Tax[12]	
Capital Tax Deduction	435
Deferred Mining Exploration and Development Expenses[13]	4
Deferred Ontario New Technology Tax Incentive and Scientific Research and Experimental Development Costs[13]	s
Exemption for Assets Used to Generate Clean Energy	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	20
Item for Which an Estimate is not Available	
Renounced Mining Expenses	

Corporate Tax	Table 3
Tax Provisions	**2007 Estimates[1] ($ Millions)**
Mining Tax[14]	
Mining Tax Exemption	1
Mining Tax Holiday for Mines (other than remote mines)	s
Mining Tax Holiday for New Remote Mines	s
Mining Tax Rate for Remote Mines	s
Processing Allowance	55
Item for Which an Estimate is not Available	
Fast Write-off of Exploration Costs	

1 Estimates are forecast to the 2007 calendar year based on preliminary 2005 and 2006 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue impact of corporate income tax expenditures provided to mutual fund corporations.

2 Estimates include the impact of both the corporate and personal income tax provisions.

3 Relating to qualifying Ontario Research and Development expenses.

4 The proposed Ontario Corporate Income Tax collection agreement with the federal government would require Ontario to fully harmonize with the federal definition of corporate taxable income. As a result, these Ontario differences from the federal definition of taxable income will expire for taxation years ending after 2008.

5 For taxation years ending after 2008, a new 4.5 per cent non-refundable tax credit has been enacted to replace this tax provision.

6 The resource allowance applies to the mining and oil and gas sectors. The estimate is not net of mining taxes and Crown royalties paid.

7 For taxation years ending after 2008, a tax credit/debit mechanism has been enacted to replace this provision.

8 Includes the impact of the Ontario surtax on Canadian-controlled private corporations.

9 Estimates based on assessed 2005 and 2006 federal tax administration data and forecast to 2007.

10 Estimate could overstate true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.

11 The 2007 Ontario cash-flow impact provided by the federal Department of Finance and adjusted to a calendar-year basis is $60 million. The cumulative impact to Ontario of this tax provision over 2007–08 to 2009–10 is estimated at over $400 million.

12 Ontario has legislated a plan to eliminate the Capital Tax by July 1, 2010.

13 Does not apply for taxation years ending after 2008 as a result of the proposed Corporate Income Tax collection agreement with the federal government.

14 Estimates are forecast to the 2007 calendar year based on preliminary 2004 Ontario mining tax administration data.

CORPORATE TAX — DESCRIPTION OF TAX PROVISIONS

The following Corporate Income Tax provisions have changed since 2006.

Corporate Income Tax

Ontario Refundable Tax Credits

Apprenticeship Training Tax Credit — A 25 per cent (30 per cent for small businesses) refundable corporate/personal income tax credit is available for corporations and unincorporated business hiring apprentices in industrial, construction, motive power and certain service trades. The 2007 Ontario Budget extended this incentive for four years for eligible apprentices who commence employment before January 1, 2012, and for salaries and wages paid prior to January 1, 2015. In addition, in 2007, the following trades have been added to the list of skilled trades that currently qualify for the tax credit:

- entertainment industry power technician
- process operator – power
- process operator – food manufacturing
- tractor trailer commercial driver
- exterior insulated finish systems mechanic
- information technology call centre inside sales agent
- information technology call centre customer care agent.

The Ministry of Revenue's Interpretation Bulletin 3020R2 regarding the Apprenticeship Training Tax Credit provides the complete listing of eligible trades and is available at: www.rev.gov.on.ca/english/bulletins/ct/3020.html

Ontario Production Services Tax Credit — An 18 per cent refundable tax credit is available for foreign-based and non-certified domestic film and television production activity in Ontario. In 2007, the 18 per cent rate was extended for one year, from March 31, 2007 to March 31, 2008. (Further enhancements to this tax credit are proposed in Annex II: *Enhancing Ontario's Tax Competitiveness.*)

Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government

Items for Which an Estimate is not Available

Accelerated Write-off of Capital Assets and Resource-related Equipment

Temporary Incentive for Manufacturing and Processing (M&P) Machinery and Equipment — An accelerated capital cost allowance (CCA) rate of 50 per cent on a straight-line basis is available for M&P machinery and equipment acquired on or after March 19, 2007, and before 2009. This measure parallels the 2007 federal budget initiative.

Donations of Medicines for the Developing World — Corporations that make donations of medicines from their inventory on or after March 19, 2007 may claim an additional charitable deduction equal to the lesser of 50 per cent of the difference between the value of the donated medicine and its cost, and the cost of the medicine. This measure parallels the 2007 federal budget initiative.

Exemption for Capital Gains Arising from Certain Donations — Capital gains on gifts of publicly listed securities and ecologically sensitive land donated to public charities are exempt from tax. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery. Effective March 19, 2007, capital gains arising from gifts of publicly listed securities to private foundations are exempt from tax. Previously, capital gains and income on such donations were subject to the normal 50 per cent inclusion rate for capital gains. These changes parallel the 2007 federal budget initiative.

SALES AND COMMODITY TAX

Estimates of tax provisions relating to sales and commodity taxes, including the Fuel Tax, Gasoline Tax, Land Transfer Tax, Retail Sales Tax and Tobacco Tax, are presented in Table 4.

Sales and Commodity Tax — **Table 4**

Tax Provisions	2007 Estimates[1] ($ Millions)
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel[2]	s
Exemption for Coloured Fuel[3]	410
Reduced Rate for Railway Diesel[4]	55
Refunds	
Auxiliary Power Take-off Equipment[5]	7
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Methanol and Natural Gas	5
Reduced Rate for Aviation Aircraft[6]	285
Reduced Rate for Propane[6]	8
Refunds	
Auxiliary Power Take-off Equipment[5]	s
Aviation Fuel[5]	s
Tax-exempt Use in Unlicensed Equipment[5]	7
Land Transfer Tax	
Exemptions	
Life Leases[7]	s
Deferrals and Exemptions for Corporate Reorganizations[5]	43
Items for Which an Estimate is not Available	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	

Sales and Commodity Tax	Table 4
Tax Provisions	**2007 Estimates[1] ($ Millions)**
Refunds	
Refund for First-time Home Buyers[5]	32
Retail Sales Tax	
Exemptions	
25¢ Coin Pay Phone Calls[7]	3
Agricultural Goods	280
Audio Books Purchased by Persons Who Are Legally Blind[7]	4
Automobile Insurance Premiums[7,8]	815
Basic Groceries	1,675
Bicycles and Bicycle Helmets[7]	1
Books, Newspapers and Magazines Sold by Subscription	395
Children's Car Seats and Booster Seats[7]	4
Children's Clothing	130
Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial Vessels Less than 1,400 Cubic Metres	120
Custom Software[9]	80
Donations to Schools, Colleges and Universities[7]	7
Educational CD-ROMs and DVDs[7]	3
Energy	4,575
Feminine Hygiene Products[7]	20
Footwear Sold for $30 or Less	30
Goods Purchased for Use by Fishers and Fur-trappers	s
Individual Life and Health Insurance Premiums[10]	460
Mobile Homes	s
Municipal Fire-fighting Equipment	1
Nicotine Replacement Therapies[11]	2
Prepared Foods Sold for $4 or Less[7]	255
Prescription Drugs and Medical Supplies	945
Production Machinery and Equipment	735
Religious Equipment	12
Repairs and Replacements Performed Under Warranty[8]	155
Seedlings	s
Services	10,195
Temporary Exemption for Destination Marketing Fees[7]	2
Temporary Exemption for Energy Star® Household Products	23

Sales and Commodity Tax

Table 4

Tax Provisions	2007 Estimates[1] ($ Millions)
Toll-free Telephone Services[7]	47
Transient Accommodation[12]	90
University Research Equipment	7
Items for Which an Estimate is not Available	
Admissions[13]	
Municipal, Hospital Restructuring	
Museums and Art Galleries	
Used Adult Clothing or Footwear Sold for $50 or Less by Religious, Charitable and Benevolent Organizations	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles[5]	5
Rebate for Building Materials for Religious, Charitable and Benevolent Organizations[5]	25
Tax Credit for Fuel Conservation[7]	6
Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities[5]	12
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems[5]	s
Vendor Compensation[14]	105
Tobacco Tax	
Compensation for Tax Collectors[14]	s

1 Estimates are forecast to the 2007 calendar year based on preliminary 2003 provincial Input–Output tables from Statistics Canada, unless otherwise noted.
2 Based on estimated amount of biodiesel sold in Ontario.
3 Based on returns filed by registered dyers.
4 Forgone revenue estimated as difference from the regular fuel tax rate.
5 Based on refunds filed or rebates/deferrals claimed.
6 Forgone revenue estimated as difference from the regular gasoline tax rate.
7 Based on the best information currently available from a variety of sources, such as industry data and Statistics Canada surveys, projected to 2007.
8 Estimates assume items would be taxed at eight per cent general RST rate.
9 Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.
10 Based on insurance premiums data provided by the Canadian Life and Health Insurance Association Inc.
11 Based on Statistics Canada CANSIM Table 105-0055: Smoking Cessation Aids.
12 The RST rate on accommodations is five per cent. Forgone revenue estimated as difference from the regular RST rate of eight per cent.
13 Includes the exemption for admissions to live theatres with 3,200 seats or less, enacted through Order in Council, which is estimated to cost $15 million to $20 million per year. There are currently no data for the cost of other admissions exemptions of general application.
14 Based on returns filed by registered tax collectors.

SALES AND COMMODITY TAX — DESCRIPTION OF TAX PROVISIONS

The following Sales and Commodity Tax provisions have changed since 2006.

Gasoline Tax

Exemption for Methanol and Natural Gas — In previous reports, this exemption also applied to ethanol. Effective January 1, 2007, ethanol became subject to the same tax treatment as gasoline. This change coincided with the implementation of the Renewable Fuels Standard under the *Environmental Protection Act*.

Retail Sales Tax (RST)

Exemptions

Bicycles and Bicycle Helmets — Bicycles costing $1,000 or less, bicycle helmets, and other bicycle safety equipment are exempt from RST if purchased on or after December 1, 2007 and on or before November 30, 2008.

Nicotine Replacement Therapies — Nicotine replacement therapies registered with a Health Canada Drug Identification Number are exempt from RST if purchased on or after August 13, 2007 and on or before August 12, 2008.

Temporary Exemption for Destination Marketing Fees — Destination marketing fees charged on transient accommodation are temporarily exempt from RST. The 2007 Ontario Budget extended the exemption to include fees billed on or before June 30, 2008.

Temporary Exemption for Energy Star® Household Products — Energy Star® qualified non-commercial refrigerators, dishwashers, clothes washers (including inseparable washer–dryer combinations), freezers, dehumidifiers, room air conditioners, light bulbs and decorative light strings are exempt from RST if purchased on or after July 20, 2007 and on or before July 19, 2008.

Credits/Rebates

Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems — A rebate is available for RST paid on the purchase of a new solar energy, wind energy, micro hydro-electric or geothermal energy system installed into a residential premises, including a multi-residential building, or on any expansion or upgrade to an existing system. The 2007 Ontario Budget extended the rebate to include purchases made on or before December 31, 2009.

EDUCATION PROPERTY TAX

Table 5 provides estimates of tax provisions relating to the Education Property Tax system.

Education Property Tax[1] — **Table 5**

Tax Provisions	**2007 Estimates**[2] **($ Millions)**
Brownfields Financial Tax Incentive Program[3]	s
Charity Rebate	7
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	1
Farm Property Class Tax Rate Reduction	65
Farmlands Awaiting Development Sub-class Tax Rate Reduction	s
Heritage Property Tax Rebate	s
Live Performance Theatres Exemption and Professional Sports Facility Tax Rate Reduction[4]	10
Managed Forest Tax Incentive Program	3
Seniors and Persons with Disabilities Property Tax Relief[5]	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	30
Vacant Land and Excess Land Sub-class Tax Rate Reduction	50
Items for Which an Estimate is not Available	
Other Tax Exemptions Under Public Statutes	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, public–private capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, Boy Scouts Association of Canada and Canadian Girl Guides Association, charitable institutions including Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor)	
Relief from Property Taxes That are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

1 Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.

2 Estimates based on 2007 education tax rates, 2007 Assessment Roll, 2006 Municipal Financial Information Returns and municipal tax policies.

3 Effective October 1, 2004, municipalities may pass bylaws cancelling municipal property taxes on eligible brownfields properties. The Province may match the municipal reduction with an education property tax reduction.

4 In 2007, improved information allowed a much more precise estimate of the exemptions given to live performance theatres.

5 Estimate does not include expenditures due to the exemption from taxation on 10 per cent of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.

EMPLOYER HEALTH TAX

Table 6 provides an estimate of the tax exemption under the Employer Health Tax system.

Employer Health Tax (EHT) — Table 6

Tax Provision	2007 Estimate ($ Millions)
$400,000 Exemption for Private-Sector Employers[1]	780

[1] Estimate is based on 2005 remuneration data forecast to represent the 2007 taxation year.

ESTATE ADMINISTRATION TAX

Table 7 provides an estimate of the exemption under the Estate Administration Tax system.

Estate Administration Tax — Table 7

Tax Provision	2007 Estimate ($ Millions)
Exemption Where the Value of the Estate Does Not Exceed $1,000	s

GROSS REVENUE CHARGE

Table 8 provides an estimate of the tax provision under the Gross Revenue Charge.

Gross Revenue Charge (GRC)[1] — Table 8

Tax Provision	2007 Estimate ($ Millions)
Gross Revenue Charge 10-Year Holiday	s

[1] Expenditure does not include the provincial water rental portion of the GRC.

ANNEX VI: ECONOMIC DATA TABLES

ANNEX VI

ECONOMIC DATA TABLES

ECONOMIC DATA TABLES (CONT'D)

(*Note*: Data in the tables may not add to totals due to rounding.)

Ontario, Gross Domestic Product, 1993–2006

Table 1

($ Billions)

	1993	1994	1995	1996	1997	1998	1999
Real GDP (chained $1997)	**329.1**	**348.5**	**360.8**	**364.8**	**381.2**	**399.7**	**429.7**
Consumption	194.3	200.2	204.0	208.7	218.8	226.4	236.9
Government	79.7	80.5	81.0	78.0	77.9	79.6	82.9
Residential Construction	18.2	18.6	16.0	17.5	20.0	19.7	22.0
Non-residential Construction	10.2	8.9	8.7	10.6	11.5	11.7	13.1
Machinery and Equipment	17.5	20.1	22.0	23.5	29.0	31.0	33.9
Exports	188.1	207.7	224.1	236.6	254.3	273.0	303.9
Imports	172.7	184.4	196.5	206.2	232.1	243.0	263.3
Nominal Gross Domestic Product	**293.4**	**311.1**	**329.3**	**338.2**	**359.4**	**377.9**	**409.0**

Table 1 (continued)

($ Billions)

	2000	2001	2002	2003	2004	2005	2006
Real GDP (chained $1997)	**455.2**	**463.4**	**477.8**	**484.3**	**496.2**	**510.7**	**521.6**
Consumption	248.5	254.7	264.5	272.7	281.5	291.6	301.7
Government	85.9	90.0	92.8	97.8	101.3	104.4	108.2
Residential Construction	23.5	25.8	28.3	29.0	30.1	30.6	30.9
Non-residential Construction	11.5	11.4	11.8	11.5	11.5	11.9	13.1
Machinery and Equipment	35.9	34.9	32.6	34.6	37.1	40.4	44.9
Exports	327.6	317.9	322.7	322.4	334.6	341.9	341.3
Imports	282.5	269.4	275.3	283.9	302.7	314.4	322.9
Nominal Gross Domestic Product	**440.8**	**453.7**	**477.8**	**493.1**	**516.8**	**536.9**	**557.8**

Source: Statistics Canada.

Ontario, Growth in Gross Domestic Product, 1993–2006							Table 2
							(Per Cent Change)
	1993	1994	1995	1996	1997	1998	1999
Real GDP (chained $1997)	**1.0**	**5.9**	**3.5**	**1.1**	**4.5**	**4.8**	**7.5**
Consumption	1.3	3.1	1.9	2.3	4.8	3.5	4.6
Government	(0.6)	1.0	0.6	(3.7)	(0.1)	2.1	4.2
Residential Construction	(8.7)	2.0	(14.0)	9.6	14.5	(1.8)	11.6
Non-residential Construction	(18.7)	(12.2)	(2.8)	21.5	9.3	1.6	11.4
Machinery and Equipment	(4.4)	14.6	9.9	6.7	23.3	6.8	9.4
Exports	8.4	10.4	7.9	5.6	7.5	7.3	11.3
Imports	5.9	6.8	6.6	4.9	12.6	4.7	8.4
Nominal Gross Domestic Product	**2.4**	**6.0**	**5.9**	**2.7**	**6.3**	**5.2**	**8.2**

Table 2 (continued)							(Per Cent Change)
	2000	2001	2002	2003	2004	2005	2006
Real GDP (chained $1997)	**5.9**	**1.8**	**3.1**	**1.4**	**2.5**	**2.9**	**2.1**
Consumption	4.9	2.5	3.8	3.1	3.2	3.6	3.5
Government	3.6	4.7	3.2	5.3	3.5	3.1	3.7
Residential Construction	7.1	9.7	9.6	2.6	3.6	1.8	1.1
Non-residential Construction	(11.8)	(1.1)	3.7	(2.4)	(0.6)	3.6	10.4
Machinery and Equipment	5.9	(2.8)	(6.5)	6.1	7.1	9.1	11.2
Exports	7.8	(3.0)	1.5	(0.1)	3.8	2.2	(0.2)
Imports	7.3	(4.6)	2.2	3.1	6.6	3.9	2.7
Nominal Gross Domestic Product	**7.8**	**2.9**	**5.3**	**3.2**	**4.8**	**3.9**	**3.9**

Source: Statistics Canada.

Ontario, Selected Economic Indicators, 1993–2006

Table 3

	1993	1994	1995	1996	1997	1998	1999
Retail Sales ($ Billions)	74.5	80.0	83.3	83.8	90.9	97.5	104.6
Housing Starts – Units (000s)	45.1	46.6	35.8	43.1	54.1	53.8	67.2
Personal Income ($ Billions)	256.1	260.7	271.4	276.3	289.5	304.7	321.7
Pre-tax Corporate Profits ($ Billions)	17.9	27.9	33.1	34.2	37.5	39.5	49.7
Consumer Price Index (2002 = 100)	84.7	84.7	86.8	88.2	89.8	90.6	92.4
Labour Force (000s)	5,544	5,548	5,589	5,680	5,776	5,877	6,018
Employment (000s)	4,938	5,014	5,100	5,167	5,291	5,453	5,637
Unemployment Rate (%)	10.9	9.6	8.7	9.0	8.4	7.2	6.3

Table 3 (continued)

	2000	2001	2002	2003	2004	2005	2006
Retail Sales ($ Billions)	111.5	114.3	121.0	125.1	129.1	135.3	140.8
Housing Starts – Units (000s)	71.5	73.3	83.6	85.2	85.1	78.8	73.4
Personal Income ($ Billions)	347.7	361.2	369.4	381.1	399.8	417.8	438.0
Pre-tax Corporate Profits ($ Billions)	54.4	49.3	60.5	58.2	63.1	62.0	64.4
Consumer Price Index (2002 = 100)	95.1	98.0	100.0	102.7	104.6	106.9	108.8
Labour Force (000s)	6,173	6,327	6,494	6,676	6,775	6,849	6,927
Employment (000s)	5,817	5,926	6,031	6,213	6,317	6,398	6,493
Unemployment Rate (%)	5.8	6.3	7.1	6.9	6.8	6.6	6.3

Sources: Statistics Canada and Canada Mortgage and Housing Corporation.

Ontario, Selected Economic Indicators, Annual Change, 1993–2006							Table 4
							(Per Cent Change)
	1993	1994	1995	1996	1997	1998	1999
Retail Sales	4.2	7.5	4.0	0.7	8.5	7.2	7.3
Housing Starts	(19.1)	3.3	(23.2)	20.2	25.6	(0.4)	24.9
Personal Income	0.9	1.8	4.1	1.8	4.8	5.2	5.6
Pre-tax Corporate Profits	23.1	55.8	18.7	3.3	9.9	5.2	25.9
Consumer Price Index	1.8	0.0	2.5	1.6	1.8	0.9	2.0
Labour Force	0.3	0.1	0.7	1.6	1.7	1.7	2.4
Employment	0.1	1.5	1.7	1.3	2.4	3.1	3.4

Table 4 (continued)							(Per Cent Change)
	2000	2001	2002	2003	2004	2005	2006
Retail Sales	6.6	2.5	5.9	3.4	3.2	4.8	4.1
Housing Starts	6.4	2.5	14.1	1.9	(0.1)	(7.4)	(6.8)
Personal Income	8.1	3.9	2.3	3.2	4.9	4.5	4.8
Pre-tax Corporate Profits	9.3	(9.2)	22.5	(3.7)	8.5	(1.8)	3.9
Consumer Price Index	2.9	3.0	2.0	2.7	1.9	2.2	1.8
Labour Force	2.6	2.5	2.6	2.8	1.5	1.1	1.1
Employment	3.2	1.9	1.8	3.0	1.7	1.3	1.5

Sources: Statistics Canada and Canada Mortgage and Housing Corporation.

Ontario, Real Gross Domestic Product by Industry at Basic Prices, 2003–2006 — Table 5

	($2002 Chained Millions)			
	2003	2004	2005	2006
Goods Producing Industries	**135,581**	**138,377**	**140,476**	**137,928**
Primary	7,748	8,087	8,328	8,306
Utilities	9,180	9,525	9,992	9,720
Construction	23,088	23,468	25,052	26,446
Manufacturing[1]	95,557	96,603	96,264	92,480
Services Producing Industries	**311,791**	**326,926**	**337,062**	**350,443**
Wholesale Trade	26,251	27,368	29,025	31,059
Retail Trade	24,243	25,103	25,817	26,901
Transportation and Warehousing	17,121	17,568	18,064	18,415
Information and Cultural (incl. Telecommunications)	16,656	17,961	18,654	19,223
Finance, Insurance, Real Estate, Rental and Leasing	95,465	98,501	101,575	105,690
Professional and Administrative Services	37,027	38,334	39,727	41,529
Education	20,226	20,916	21,792	22,273
Health Care and Social Services	26,693	27,445	27,844	28,944
Arts, Entertainment and Recreation	4,354	4,618	4,608	4,754
Accommodation and Food	9,218	9,428	9,538	9,858
Other Services	10,976	11,340	11,514	11,774
Public Administration	23,564	24,065	24,519	25,509
Total Production	**447,367**	**460,425**	**472,586**	**483,505**

[1] See Table 7 for detailed manufacturing industries.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario, Growth in Real Gross Domestic Product by Industry at Basic Prices, 2003–2006

Table 6

(Per Cent Change)

	2003	2004	2005	2006
Goods Producing Industries	**0.5**	**2.1**	**1.5**	**(1.8)**
Primary	0.3	4.4	3.0	(0.3)
Utilities	(0.6)	3.7	4.9	(2.7)
Construction	3.3	1.6	6.8	5.6
Manufacturing[1]	(0.1)	1.1	(0.4)	(3.9)
Services Producing Industries	**2.1**	**4.9**	**3.1**	**4.0**
Wholesale Trade	5.1	4.3	6.1	7.0
Retail Trade	4.0	3.5	2.8	4.2
Transportation and Warehousing	(1.5)	2.6	2.8	1.9
Information and Cultural (incl. Telecommunications)	(0.4)	7.8	3.9	3.1
Finance, Insurance, Real Estate, Rental and Leasing	1.7	3.2	3.1	4.1
Professional and Administrative Services	3.5	3.5	3.6	4.5
Education	1.7	3.4	4.2	2.2
Health Care and Social Services	3.6	2.8	1.5	3.9
Arts, Entertainment and Recreation	0.7	6.1	(0.2)	3.2
Accommodation and Food	(7.8)	2.3	1.2	3.4
Other Services	1.7	3.3	1.5	2.3
Public Administration	4.6	2.1	1.9	4.0
Total Production	**1.6**	**2.9**	**2.6**	**2.3**

[1] See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario, Real Gross Domestic Product at Basic Prices in Selected Manufacturing Industries, 2003–2006

Table 7

	($2002 Chained Millions)			
	2003	2004	2005	2006
Manufacturing	**95,557**	**96,603**	**96,264**	**92,480**
Food, Beverage and Tobacco Products	10,194	10,457	10,668	10,732
Textile, Clothing and Leather Products	1,845	1,776	1,594	1,456
Wood Products and Furniture	5,059	5,036	4,977	4,854
Paper Products and Printing	7,074	6,970	7,005	6,091
Chemical and Petroleum Products	9,840	9,676	9,430	9,136
Plastic and Rubber Products	5,821	5,624	5,638	5,474
Primary Metal and Fabricated Metal Products	13,638	13,034	12,982	12,061
Machinery	6,780	6,578	6,953	6,504
Electrical and Electronic Products	5,580	5,889	5,849	6,017
Transportation Equipment	25,446	27,485	26,968	25,873
Other Manufacturing	4,403	4,455	4,497	4,623

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario, Growth in Real Gross Domestic Product at Basic Prices in Selected Manufacturing Industries, 2003–2006 — **Table 8**

	(Per Cent Change)			
	2003	**2004**	**2005**	**2006**
Manufacturing	**(0.1)**	**1.1**	**(0.4)**	**(3.9)**
Food, Beverage and Tobacco Products	(0.8)	2.6	2.0	0.6
Textile, Clothing and Leather Products	(8.6)	(3.7)	(10.2)	(8.7)
Wood Products and Furniture	(6.1)	(0.4)	(1.2)	(2.5)
Paper Products and Printing	(2.2)	(1.5)	0.5	(13.0)
Chemical and Petroleum Products	1.6	(1.7)	(2.5)	(3.1)
Plastic and Rubber Products	(0.4)	(3.4)	0.2	(2.9)
Primary Metal and Fabricated Metal Products	0.0	(4.4)	(0.4)	(7.1)
Machinery	(2.3)	(3.0)	5.7	(6.5)
Electrical and Electronic Products	(6.0)	5.5	(0.7)	2.9
Transportation Equipment	4.4	8.0	(1.9)	(4.1)
Other Manufacturing	2.0	1.2	0.9	2.8

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario, Housing Market Indicators, 2003–2006

Table 9

	2003	2004	2005	2006
New Housing Market				
Residential Construction, Current $ Millions	30,542	33,590	35,635	37,677
Per Cent Change	8.0	10.0	6.1	5.7
Real Residential Construction ($1997 Millions)	29,024	30,070	30,622	30,944
Per Cent Change	2.6	3.6	1.8	1.1
Housing Starts (Units)	85,180	85,114	78,795	73,417
Per Cent Change	1.9	(0.1)	(7.4)	(6.8)
Of which: Single-detached, urban areas (Units)	40,849	41,101	33,655	30,369
Per Cent Change	(9.2)	0.6	(18.1)	(9.8)
Multiple, urban areas (Units)	40,082	38,795	39,522	37,411
Per Cent Change	15.7	(3.2)	1.9	(5.3)
New Housing Price Index (1997 = 100)	120.0	126.7	132.6	137.5
Per Cent Change	4.4	5.6	4.6	3.7
Resale Market				
Home Resales (Units)	184,457	197,353	197,007	194,793
Per Cent Change	3.6	7.0	(0.2)	(1.1)
Average Resale Price ($)	226,824	245,230	263,042	278,455
Per Cent Change	7.5	8.1	7.3	5.9

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

Selected Financial Indicators, 1993–2006							Table 10
							(Per Cent)
	1993	1994	1995	1996	1997	1998	1999
Interest Rates							
Bank Rate	5.1	5.8	7.1	4.5	3.5	5.1	4.9
Prime Rate	5.9	6.9	8.6	6.1	5.0	6.6	6.4
10-Year Government Bonds	7.2	8.4	8.1	7.2	6.1	5.3	5.6
Three-month T-Bills	4.8	5.5	6.9	4.2	3.3	4.7	4.7
Mortgage Rates							
5-Year Rate	8.8	9.5	9.2	7.9	7.1	6.9	7.6
1-Year Rate	6.9	7.8	8.4	6.2	5.5	6.5	6.8
Canadian Household Debt Burden[1]							
Consumer	21.3	22.7	23.5	24.6	26.2	27.7	28.3
Mortgage	62.2	65.3	65.4	67.5	68.8	69.4	69.0
Total	83.5	88.0	88.9	92.1	95.0	97.1	97.3

Table 10 (continued)							(Per Cent)
	2000	2001	2002	2003	2004	2005	2006
Interest Rates							
Bank Rate	5.8	4.3	2.7	3.2	2.5	2.9	4.3
Prime Rate	7.3	5.8	4.2	4.7	4.0	4.4	5.8
10-Year Government Bonds	5.9	5.5	5.3	4.8	4.6	4.1	4.2
Three-month T-Bills	5.5	3.8	2.6	2.9	2.2	2.7	4.0
Mortgage Rates							
5-Year Rate	8.3	7.4	7.0	6.4	6.2	6.0	6.7
1-Year Rate	7.9	6.1	5.2	4.8	4.6	5.1	6.3
Canadian Household Debt Burden[1]							
Consumer	29.7	30.3	31.1	32.7	34.4	36.9	38.1
Mortgage	67.4	67.0	69.3	72.2	75.2	79.2	82.4
Total	97.1	97.3	100.4	104.9	109.7	116.1	120.6

[1] Household debt as a share of personal disposable income.

Note: All data are annual averages.

Sources: Statistics Canada, Finance Canada and Bank of Canada.

Ontario and the G7, Real Gross Domestic Product Growth, 1993–2006 — Table 11

(Per Cent)

	1993	1994	1995	1996	1997	1998	1999
Ontario	1.0	5.9	3.5	1.1	4.5	4.8	7.5
Canada	2.3	4.8	2.8	1.6	4.2	4.1	5.5
France	(0.9)	2.3	2.1	1.1	2.3	3.5	3.3
Germany	(0.8)	2.7	1.9	1.0	1.8	2.0	2.0
Italy	(0.9)	2.2	2.8	0.7	1.9	1.4	1.9
Japan	0.2	1.1	2.0	2.7	1.6	(2.0)	(0.1)
United Kingdom	2.3	4.3	2.9	2.8	3.1	3.4	3.0
United States	2.7	4.0	2.5	3.7	4.5	4.2	4.5

Table 11 (continued)

(Per Cent)

	2000	2001	2002	2003	2004	2005	2006
Ontario	5.9	1.8	3.1	1.4	2.5	2.9	2.1
Canada	5.2	1.8	2.9	1.9	3.1	3.1	2.8
France	3.9	1.8	1.0	1.1	2.5	1.7	2.0
Germany	3.2	1.2	0.0	(0.2)	1.1	0.8	2.9
Italy	3.6	1.8	0.3	0.0	1.2	0.1	1.9
Japan	2.9	0.2	0.3	1.4	2.7	1.9	2.2
United Kingdom	3.8	2.4	2.1	2.8	3.3	1.8	2.8
United States	3.7	0.8	1.6	2.5	3.6	3.1	2.9

Sources: OECD, U.S. Bureau of Economic Analysis and Statistics Canada.

Ontario and the G7, Employment Growth, 1993–2006

Table 12

(Per Cent)

	1993	1994	1995	1996	1997	1998	1999
Ontario	0.1	1.5	1.7	1.3	2.4	3.1	3.4
Canada	0.5	2.1	1.8	0.9	2.1	2.5	2.6
France	(0.7)	(1.0)	1.4	0.6	(0.4)	1.1	0.9
Germany	(1.2)	(0.7)	0.0	(0.4)	(0.4)	1.4	(0.3)
Italy	(3.5)	(1.6)	(0.7)	0.5	0.5	1.0	1.2
Japan	0.2	0.0	0.1	0.4	1.2	(0.7)	(0.8)
United Kingdom	(1.4)	0.6	1.0	0.9	1.6	0.9	1.2
United States	1.5	2.3	1.5	1.4	2.2	1.5	1.5

Table 12 (continued)

(Per Cent)

	2000	2001	2002	2003	2004	2005	2006
Ontario	3.2	1.9	1.8	3.0	1.7	1.3	1.5
Canada	2.5	1.2	2.4	2.4	1.8	1.4	1.9
France	2.6	2.1	0.8	3.1	0.4	0.6	0.9
Germany	0.5	0.3	(0.9)	(1.1)	0.0	1.7	2.3
Italy	1.7	1.9	1.3	1.0	1.2	0.7	1.9
Japan	(0.3)	(0.5)	(1.3)	(0.3)	0.3	0.4	0.4
United Kingdom	1.3	0.9	0.5	1.0	0.7	0.6	0.5
United States	2.5	0.0	(0.3)	0.9	1.1	1.8	1.9

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Ontario and the G7, Unemployment Rates, 1993–2006

Table 13

(Per Cent)

	1993	1994	1995	1996	1997	1998	1999
Ontario	10.9	9.6	8.7	9.0	8.4	7.2	6.3
Canada	11.4	10.4	9.5	9.6	9.1	8.3	7.6
France	11.1	11.7	11.1	11.6	11.5	11.1	10.5
Germany	7.6	8.2	8.0	8.7	9.4	9.0	8.2
Italy	9.8	10.6	11.2	11.2	11.3	11.4	10.9
Japan	2.5	2.9	3.1	3.4	3.4	4.1	4.7
United Kingdom	10.2	9.3	8.5	7.9	6.8	6.1	5.9
United States	6.9	6.1	5.6	5.4	4.9	4.5	4.2

Table 13 (continued)

(Per Cent)

	2000	2001	2002	2003	2004	2005	2006
Ontario	5.8	6.3	7.1	6.9	6.8	6.6	6.3
Canada	6.8	7.2	7.7	7.6	7.2	6.8	6.3
France	9.1	8.4	8.7	9.5	9.6	9.7	9.5
Germany	7.5	7.6	8.3	9.3	9.8	10.6	9.8
Italy	10.1	9.1	8.6	8.4	8.0	7.7	6.8
Japan	4.7	5.0	5.4	5.3	4.7	4.4	4.1
United Kingdom	5.3	5.0	5.1	4.9	4.7	4.8	5.3
United States	4.0	4.7	5.8	6.0	5.5	5.1	4.6

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature.

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Ontario and the G7, CPI Inflation Rates, 1993–2006 — **Table 14**

(Per Cent)

	1993	1994	1995	1996	1997	1998	1999
Ontario	1.8	0.0	2.5	1.6	1.8	0.9	2.0
Canada	1.9	0.1	2.2	1.5	1.7	1.0	1.8
France	2.1	1.7	1.8	2.0	1.2	0.6	0.5
Germany	4.4	2.7	1.7	1.4	1.9	0.9	0.6
Italy	4.6	4.1	5.2	4.0	2.0	2.0	1.7
Japan	1.3	0.7	(0.1)	0.1	1.8	0.7	(0.3)
United Kingdom	2.5	2.0	2.7	2.5	1.8	1.6	1.3
United States	3.0	2.6	2.8	3.0	2.3	1.6	2.2

Table 14 (continued) — **(Per Cent)**

	2000	2001	2002	2003	2004	2005	2006
Ontario	2.9	3.0	2.0	2.7	1.9	2.2	1.8
Canada	2.7	2.5	2.2	2.8	1.8	2.2	2.0
France	1.7	1.6	1.9	2.1	2.1	1.7	1.7
Germany	1.5	2.0	1.4	1.0	1.7	2.0	1.7
Italy	2.5	2.8	2.5	2.7	2.2	2.0	2.1
Japan	(0.7)	(0.8)	(0.9)	(0.2)	0.0	(0.3)	0.2
United Kingdom	0.8	1.2	1.3	1.4	1.3	2.0	2.3
United States	3.4	2.8	1.6	2.3	2.7	3.4	3.2

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

G7, Exchange Rates, 1993–2006

Table 15

(Foreign Currency per Canadian Dollar)

	1993	1994	1995	1996	1997	1998	1999
Euro[1]	–	–	–	–	–	–	0.631
France	4.390	4.066	3.637	3.752	4.211	3.968	4.139
Germany	1.282	1.188	1.044	1.104	1.251	1.183	1.234
Italy	1,219.8	1,180.7	1,186.9	1,131.6	1,228.5	1,168.2	1,222.5
Japan	86.2	74.8	68.5	79.8	87.3	87.8	76.3
United Kingdom	0.517	0.478	0.462	0.470	0.441	0.407	0.416
United States	0.775	0.732	0.729	0.733	0.722	0.674	0.673

Table 15 (continued)

(Foreign Currency per Canadian Dollar)

	2000	2001	2002	2003	2004	2005	2006
Euro[1]	0.730	0.721	0.674	0.632	0.618	0.663	0.702
France	4.787	4.730	–	–	–	–	–
Germany	1.427	1.410	–	–	–	–	–
Italy	1,412.4	1,396.6	–	–	–	–	–
Japan	72.6	78.4	79.7	82.7	83.1	90.6	102.5
United Kingdom	0.444	0.448	0.424	0.437	0.419	0.453	0.479
United States	0.673	0.646	0.637	0.714	0.768	0.825	0.882

[1] Introduced January 4, 1999.

Note: All data are annual averages.

Source: Bank of Canada.

Ontario, International Merchandise Exports[1] by Major Commodity[2], 2006		Table 16
	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	67,808	38.2
Machinery and Mechanical Appliances	18,433	10.4
Electrical Machinery and Equipment	10,552	5.9
Non-ferrous Metals and Allied Products	9,875	5.6
Plastics and Plastic Articles	7,087	4.0
Precious Metals, Stones and Coins	6,491	3.7
Prepared Foodstuffs, Beverages and Tobacco	4,905	2.8
Furniture and Fixtures, Signs, Prefabricated Buildings	4,635	2.6
Pulp; Paper and Allied Products	4,510	2.5
Iron and Steel	3,949	2.2
Other Chemical Products	3,725	2.1
Mineral Products	3,550	2.0
Pharmaceutical Products	3,487	2.0
Articles of Iron and Steel	3,214	1.8
Scientific, Professional and Photo Equipment, Clocks	2,511	1.4
Wood and Wood Products	2,432	1.4
Inorganic Chemicals; Chemical Elements and Compounds	1,907	1.1
Rubber and Rubber Articles	1,888	1.1
Vegetable Products; Fats and Oils	1,864	1.1
Aircraft, Spacecraft and Parts	1,670	0.9
Organic Chemicals	1,618	0.9
Live Animals; Animal Products	1,384	0.8
Articles of Stone, Cement, Ceramic and Glass	1,296	0.7
Textiles and Textile Articles	1,286	0.7
Printed Matter	696	0.4
Hides, Leather, Travel Goods and Furs	456	0.3
Railway, Rolling Stock and Parts	387	0.2
Apparel and Clothing Accessories	357	0.2
Toys, Games and Sports Equipment	324	0.2
Other Textile and Clothing Articles	261	0.1
Miscellaneous Articles; Works of Art	215	0.1
Ships, Boats and Floating Structures	63	0.0
Headgear, Umbrellas, Artificial Flowers	32	0.0
Footwear	20	0.0
Other Commodities[3]	4,479	2.5
Total Exports	**177,365**	**100.0**

1 Domestic exports exclude re-exports.
2 Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.
3 Other Commodities includes special transactions.
Source: Industry Canada.

Ontario, International Merchandise Imports by Major Commodity[1], 2006		Table 17
	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	52,026	22.3
Machinery and Mechanical Appliances	40,023	17.1
Electrical Machinery and Equipment	25,935	11.1
Plastics and Plastic Articles	9,414	4.0
Scientific, Professional and Photo Equipment, Clocks	8,156	3.5
Other Chemical Products	8,079	3.5
Non-ferrous Metals and Allied Products	8,008	3.4
Pharmaceutical Products	7,238	3.1
Prepared Foodstuffs, Beverages and Tobacco	6,566	2.8
Mineral Products	6,017	2.6
Iron and Steel	5,206	2.2
Organic Chemicals	4,910	2.1
Vegetable Products; Fats and Oils	4,575	2.0
Articles of Iron and Steel	4,429	1.9
Precious Metals, Stones and Coins	4,377	1.9
Furniture and Fixtures, Signs, Prefabricated Buildings	4,333	1.9
Pulp; Paper and Allied Products	4,277	1.8
Rubber and Rubber Articles	3,380	1.4
Articles of Stone, Cement, Ceramic and Glass	2,827	1.2
Apparel and Clothing Accessories	2,820	1.2
Printed Matter	2,507	1.1
Toys, Games and Sports Equipment	2,281	1.0
Textiles and Textile Articles	2,268	1.0
Aircraft, Spacecraft and Parts	1,885	0.8
Live Animals; Animal Products	1,774	0.8
Wood and Wood Products	1,385	0.6
Inorganic Chemicals; Chemical Elements and Compounds	1,155	0.5
Railway, Rolling Stock and Parts	862	0.4
Hides, Leather, Travel Goods and Furs	760	0.3
Miscellaneous Articles; Works of Art	723	0.3
Footwear	699	0.3
Other Textile and Clothing Articles	539	0.2
Ships, Boats and Floating Structures	359	0.2
Headgear, Umbrellas, Artificial Flowers	164	0.1
Other Commodities[2]	3,628	1.6
Total Imports	**233,586**	**100.0**

1 Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

2 Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

Ontario, International Merchandise Trade[1] by Major Region, 2006				Table 18
	Exports ($ Millions)	**Per Cent of Total**	**Imports ($ Millions)**	**Per Cent of Total**
United States	153,459	86.5	152,341	65.2
European Union	10,964	6.2	19,931	8.5
Germany	954	0.5	5,150	2.2
United Kingdom	5,878	3.3	3,360	1.4
Italy	343	0.2	2,284	1.0
France	1,000	0.6	1,928	0.8
Ireland	146	0.1	1,701	0.7
Other Europe	2,615	1.5	2,366	1.0
Asia Pacific	5,527	3.1	38,822	16.6
China[2]	1,840	1.0	18,020	7.7
Japan	1,085	0.6	8,501	3.6
Latin America	2,953	1.7	16,448	7.0
Mexico	1,967	1.1	12,176	5.2
Caribbean	435	0.2	189	0.1
Middle East	822	0.5	976	0.4
Africa	590	0.3	699	0.3
Re-imports (Canada)	–	0.0	1,814	0.8
Total	**177,365**	**100.0**	**233,586**	**100.0**

1 Data are customs based and do not include re-exports.
2 Chinese economic area: China, Hong Kong and Mongolia.
Source: Industry Canada.

Canada, International Merchandise Trade[1] by Major Region, 2006 — Table 19

	Exports ($ Millions)	Per Cent of Total	Imports ($ Millions)	Per Cent of Total
United States	336,707	81.9	217,638	54.9
European Union	26,405	6.4	49,278	12.4
Germany	3,482	0.8	11,128	2.8
United Kingdom	9,219	2.2	10,847	2.7
Italy	1,806	0.4	4,918	1.2
France	2,417	0.6	5,186	1.3
Ireland	347	0.1	2,556	0.6
Other Europe	4,162	1.0	9,382	2.4
Asia Pacific	29,569	7.2	74,122	18.7
China[2]	8,500	2.1	35,194	8.9
Japan	9,221	2.2	15,327	3.9
Latin America	7,905	1.9	27,317	6.9
Mexico	4,031	1.0	16,009	4.0
Caribbean	1,244	0.3	1,776	0.4
Middle East	2,966	0.7	5,330	1.3
Africa	2,347	0.6	8,422	2.1
Re-imports (Canada)	–	0.0	3,362	0.8
Total	**411,305**	**100.0**	**396,626**	**100.0**

[1] Data are customs based and do not include re-exports.
[2] Chinese economic area: China, Hong Kong and Mongolia.
Source: Industry Canada.

Ontario, Selected Demographic Characteristics, 1991–2007[1]									Table 20
	Intercensal Estimates		Postcensal Estimates[2]						
	1991	**1996**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Total Population (000s)	10,428	11,083	11,898	12,102	12,263	12,420	12,565	12,705	12,804
Annual Average Growth Over Preceding Year Shown (%)	2.0	1.2	1.4	1.7	1.3	1.3	1.2	1.1	0.8
Median Age (Years)	33.3	35.0	36.7	37.0	37.4	37.7	37.9	38.2	NA
Age Group Shares (%)									
0–4	7.0	6.8	6.0	5.8	5.6	5.5	5.4	5.3	NA
5–14	13.1	13.5	13.5	13.4	13.2	13.0	12.8	12.5	NA
15–24	14.5	13.2	13.4	13.4	13.5	13.5	13.6	13.6	NA
25–44	34.2	32.9	31.5	31.3	30.9	30.6	30.3	29.9	NA
45–64	19.6	21.3	23.2	23.6	24.1	24.6	25.2	25.8	NA
65–74	7.0	7.3	7.0	6.9	6.9	6.8	6.8	6.8	NA
75+	4.6	5.0	5.6	5.7	5.8	5.9	6.0	6.1	NA
Total Fertility Rate[3]	1.7	1.6	1.5	1.5	1.5	1.5	1.5	NA	NA
Life Expectancy at Birth (Years)[3]									
Female	80.8	81.3	82.2	82.2	82.4	82.7	NA	NA	NA
Male	75.0	75.9	77.5	77.7	77.8	78.3	NA	NA	NA
Families (000s)[4]	2,727	2,933	3,191	NA	NA	NA	NA	3,422	NA
Households (000s)[4]	3,638	3,925	4,219	NA	NA	NA	NA	4,555	NA

1 Population figures are for July 1 (Census year).
2 Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.
3 Calendar-year data.
4 Families and households are Census data.
Source: Statistics Canada.

Ontario, Components of Population Growth, 1997–98 to 2006–07[1]					Table 21
					(Thousands)
	1997–98	1998–99	1999–00	2000–01	2001–02
Population at Beginning of Period	**11,228**	**11,367**	**11,506**	**11,685**	**11,898**
Births	133	131	131	128	129
Deaths	80	80	81	81	81
Immigrants	106	92	117	150	153
Net Emigrants[2]	26	24	24	23	19
Net Change in Non-permanent Residents	(3)	6	16	21	17
Interprovincial Arrivals	75	73	79	75	70
Interprovincial Departures	66	56	57	56	65
Population Growth During Period	139	139	179	212	204
Population at End of Period[3]	**11,367**	**11,506**	**11,685**	**11,898**	**12,102**
Population Growth (%)	1.2	1.2	1.6	1.8	1.7

Table 21 (continued)					(Thousands)
	2002–03	2003–04	2004–05	2005–06	2006–07
Population at Beginning of Period	**12,102**	**12,263**	**12,420**	**12,565**	**12,705**
Births	129	133	133	134	134
Deaths	83	84	84	87	90
Immigrants	110	128	130	133	115
Net Emigrants[2]	18	17	20	20	21
Net Change in Non-permanent Residents	22	5	(1)	(2)	(5)
Interprovincial Arrivals	64	57	59	56	71
Interprovincial Departures	64	64	71	73	108
Population Growth During Period	161	158	145	140	99
Population at End of Period[3]	**12,263**	**12,420**	**12,565**	**12,705**	**12,804**
Population Growth (%)	1.3	1.3	1.2	1.1	0.8

1 Data are from July 1 to June 30 (Census year).
2 Net Emigrants = Emigrants plus net temporary emigrants minus returning emigrants.
3 The sum of the components does not equal the total change in population due to residual deviation.
Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

Ontario, Labour Force, 1993–2006							Table 22
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Labour Force (000s)	5,544	5,548	5,589	5,680	5,776	5,877	6,018
Annual Labour Force Growth (%)	0.3	0.1	0.7	1.6	1.7	1.7	2.4
Participation Rate (%)							
Male	74.3	73.4	72.7	72.6	72.8	72.5	73.1
Female	59.4	58.8	58.6	58.9	59.0	59.6	60.3
Share of Labour Force (%)							
Youth (15–24)	17.3	16.8	16.4	16.2	15.9	15.8	16.1
Older Workers (45+)	28.1	28.8	29.1	29.5	30.2	30.7	31.4

Table 22 (continued)							
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Labour Force (000s)	6,173	6,327	6,494	6,676	6,775	6,849	6,927
Annual Labour Force Growth (%)	2.6	2.5	2.6	2.8	1.5	1.1	1.1
Participation Rate (%)							
Male	73.3	73.4	73.6	74.3	74.1	73.5	72.8
Female	61.0	61.4	62.0	63.0	63.0	62.7	62.9
Share of Labour Force (%)							
Youth (15–24)	16.4	16.3	16.4	16.3	16.2	15.9	15.9
Older Workers (45+)	32.0	32.6	33.4	34.7	35.4	36.1	37.1

Source: Statistics Canada.

Ontario, Employment, 1993–2006

Table 23

	1993	1994	1995	1996	1997	1998	1999
Total Employment (000s)	4,938	5,014	5,100	5,167	5,291	5,453	5,637
Male	2,673	2,714	2,761	2,791	2,870	2,936	3,035
Female	2,265	2,300	2,339	2,376	2,421	2,518	2,602
Annual Employment Growth (%)	0.1	1.5	1.7	1.3	2.4	3.1	3.4
Net Job Creation (000s)	5	76	86	67	124	162	183
Private-sector Employment (000s)	3,200	3,262	3,375	3,440	3,508	3,649	3,784
Public-sector Employment (000s)	1,027	1,028	1,003	977	938	938	962
Self-employment (000s)	711	724	723	750	845	867	891
Manufacturing Employment (% of total)	16.6	16.8	17.2	17.6	17.7	18.0	18.4
Services Employment (% of total)	73.7	73.8	73.6	73.5	73.5	73.3	72.8
Part-time (% of total)	19.5	19.0	18.7	19.2	19.2	18.7	18.0
Average Hours Worked Per Week[1]	37.2	37.6	37.3	37.6	37.8	37.8	38.0

Table 23 (continued)

	2000	2001	2002	2003	2004	2005	2006
Total Employment (000s)	5,817	5,926	6,031	6,213	6,317	6,398	6,493
Male	3,125	3,167	3,209	3,301	3,349	3,390	3,418
Female	2,692	2,759	2,822	2,912	2,967	3,008	3,074
Annual Employment Growth (%)	3.2	1.9	1.8	3.0	1.7	1.3	1.5
Net Job Creation (000s)	180	109	105	182	103	81	95
Private-sector Employment (000s)	3,930	4,052	4,116	4,249	4,278	4,330	4,388
Public-sector Employment (000s)	994	1,002	1,038	1,050	1,107	1,140	1,170
Self-employment (000s)	894	873	878	914	932	928	935
Manufacturing Employment (% of total)	18.5	18.0	18.1	17.6	17.4	16.6	15.5
Services Employment (% of total)	72.9	73.4	73.4	73.8	74.1	74.4	75.3
Part-time (% of total)	18.0	17.8	18.3	18.5	18.1	18.1	17.7
Average Hours Worked Per Week[1]	38.0	37.5	37.3	36.6	37.1	37.3	36.9

[1] Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.

Source: Statistics Canada.

Ontario, Unemployment, 1993–2006 — Table 24

	1993	1994	1995	1996	1997	1998	1999
Total Unemployment (000s)	605	535	489	513	485	424	382
Unemployment Rate (%)	10.9	9.6	8.7	9.0	8.4	7.2	6.3
Male	11.5	10.0	8.9	9.0	8.1	7.2	6.2
Female	10.2	9.2	8.6	9.1	8.7	7.3	6.5
Toronto CMA[1]	11.3	10.4	8.6	9.1	7.9	7.0	6.1
Northern Ontario	12.7	11.7	10.0	10.7	10.4	11.1	9.1
Youth (15–24)	17.7	15.7	14.7	14.9	16.4	14.5	13.2
Older Workers (45+)	7.7	7.1	6.5	6.4	5.9	5.3	4.2
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	33.5	32.6	29.5	28.2	25.5	21.9	19.1
Youth (15–24)	28.1	27.5	27.7	26.8	31.0	31.6	33.7
Older Workers (45+)	19.7	21.2	21.6	20.8	21.4	22.6	20.8
Average Duration (weeks)[2]	26.9	27.7	25.9	24.8	26.5	23.2	21.3
Youth (15–24)	18.3	17.9	16.3	15.4	13.8	12.8	11.6
Older Workers (45+)	34.0	34.9	33.4	31.0	42.2	39.0	34.2

Table 24 (continued)

	2000	2001	2002	2003	2004	2005	2006
Total Unemployment (000s)	356	401	462	463	459	451	435
Unemployment Rate (%)	5.8	6.3	7.1	6.9	6.8	6.6	6.3
Male	5.6	6.5	7.4	7.1	6.9	6.6	6.4
Female	6.0	6.2	6.8	6.8	6.6	6.5	6.2
Toronto CMA[1]	5.5	6.3	7.4	7.7	7.5	7.0	6.6
Northern Ontario	8.3	8.0	8.1	7.4	7.8	7.0	7.4
Youth (15–24)	11.9	12.5	13.9	14.4	14.1	13.9	13.1
Older Workers (45+)	4.0	4.4	4.7	4.7	4.5	4.7	4.3
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	15.4	12.8	15.5	16.2	15.6	15.1	14.3
Youth (15–24)	33.7	32.2	32.1	33.9	33.9	33.5	33.3
Older Workers (45+)	22.4	22.9	22.0	23.5	23.4	25.9	25.4
Average Duration (weeks)[2]	17.7	15.3	16.3	17.0	16.1	16.1	15.8
Youth (15–24)	9.8	8.6	9.4	9.4	8.8	8.7	8.7
Older Workers (45+)	28.4	25.6	24.4	27.2	24.3	23.9	23.7

1 CMA is Census Metropolitan Area. Toronto CMA includes the city of Toronto; the regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.

2 Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

Ontario, Employment Insurance (EI) and Social Assistance, 1993–2006 — Table 25

	1993	1994	1995	1996	1997	1998	1999
EI Regular Beneficiaries (000s)	294	228	181	180	151	131	110
EI Maximum Annual Insurable Earnings ($)	38,740	40,560	42,380	39,000	39,000	39,000	39,000
EI Maximum Weekly Benefit ($)	447/425[1]	445/429[1]	448	465/413[1]	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	4.20	4.30	4.20	4.13	4.06	3.78	3.57
Employee ($/$100 Insurable Earnings)	3.00	3.07	3.00	2.95	2.90	2.70	2.55
EI Total Benefits Paid ($ millions)[2]	5,406	4,511	3,796	3,653	3,436	3,141	3,051
EI Contributions ($ millions)[2]	7,567	8,067	7,929	7,582	8,173	7,679	7,614
Social Assistance Caseload (000s)[4]	660	673	660	599	568	529	479

Table 25 (continued)

	2000	2001	2002	2003	2004	2005	2006
EI Regular Beneficiaries (000s)	101	122	136	142	136	132	129
EI Maximum Annual Insurable Earnings ($)	39,000	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Benefit ($)	413	413	413	413	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	3.36	3.15	3.08	2.94	2.77	2.73	2.62
Employee ($/$100 Insurable Earnings)	2.40	2.25	2.20	2.10	1.98	1.95	1.87
EI Total Benefits Paid ($ millions)[2]	2,787	3,524	4,328	4,342	4,429	4,325	4,421
EI Contributions ($ millions)[2]	7,671	7,477	7,384	7,282	6,913	7,108	6,332[3]
Social Assistance Caseload (000s)[4]	436	408	411	413	418	431	443

1 EI maximum weekly benefits for 1993, 1994 and 1996 were changed in-year.

2 EI benefits are paid on a cash basis; contributions are paid on an accrual basis.

3 EI contributions for 2006 are Ontario Ministry of Finance estimates.

4 The number of social assistance cases from 1998 to 2006 includes recipients of the Ontario Works program, the Ontario Disability Support Program, Temporary Care Assistance and the Assistance for Children with Severe Disabilities program. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources and Social Development Canada, Department of Finance Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

Ontario, Labour Compensation, 1993–2006 **Table 26**

	1993	1994	1995	1996	1997	1998	1999
Average Weekly Earnings ($)[1]	612.33	628.16	634.17	649.55	663.73	672.67	683.70
Increase (%)	2.3	2.6	1.0	2.4	2.2	1.3	1.6
CPI Inflation (%)	1.8	0.0	2.5	1.6	1.8	0.9	2.0
AWE Increase Less CPI Inflation (%)	0.5	2.6	(1.5)	0.8	0.4	0.4	(0.4)
AWE – Manufacturing ($)	739.20	761.95	770.80	794.09	821.28	841.78	852.13
Increase (%)	3.2	3.1	1.2	3.0	3.4	2.5	1.2
Increase Less CPI Inflation (%)	1.4	3.1	(1.3)	1.4	1.6	1.6	(0.8)
Wage Settlement Increases (%)[2]							
All Sectors	1.0	0.4	1.0	1.1	1.6	1.6	2.1
Public	0.5	0.1	0.2	0.3	0.7	1.3	1.4
Private	1.9	1.1	1.7	2.2	3.3	2.1	3.1
Person Days Lost Due to Strikes and Lockouts (000s)	371	488	477	1,915	1,904	1,061	651
Minimum Wage at Year-end ($/hour)	6.35	6.70	6.85	6.85	6.85	6.85	6.85

Table 26 (continued)

	2000	2001	2002	2003	2004	2005	2006
Average Weekly Earnings ($)[1]	700.12	709.37	722.97	731.07	743.43	764.52	782.02
Increase (%)	2.4	1.3	1.9	1.1	1.7	2.8	2.3
CPI Inflation (%)	2.9	3.0	2.0	2.7	1.9	2.2	1.8
AWE Increase Less CPI Inflation (%)	(0.5)	(1.7)	(0.1)	(1.6)	(0.2)	0.6	0.5
AWE – Manufacturing ($)	869.40	884.38	909.22	918.82	935.25	955.16	970.15
Increase (%)	2.0	1.7	2.8	1.1	1.8	2.1	1.6
Increase Less CPI Inflation (%)	(0.9)	(1.3)	0.8	(1.6)	(0.1)	(0.1)	(0.2)
Wage Settlement Increases (%)[2]							
All Sectors	2.6	3.0	3.0	3.1	2.9	2.7	2.5
Public	2.7	2.9	2.9	3.5	3.2	2.7	3.0
Private	2.4	3.0	3.0	1.9	2.7	2.4	1.8
Person Days Lost Due to Strikes and Lockouts (000s)	650	672	1,511	495	487	403	395
Minimum Wage at Year-end ($/hour)	6.85	6.85	6.85	6.85	7.15	7.45	7.75

[1] Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS).

[2] Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

Ontario, Employment by Occupation, 1995–2006

Table 27

(Thousands)

	1995	1996	1997	1998	1999	2000
Management	544	535	546	550	546	562
Business, Finance and Administrative	982	981	974	1,010	1,031	1,056
Natural and Applied Sciences	304	295	327	354	398	427
Health	258	253	267	264	272	280
Social Science, Education, Government Service and Religion	398	400	403	422	442	453
Art, Culture, Recreation and Sport	142	149	149	156	169	172
Sales and Service	1,152	1,185	1,199	1,237	1,281	1,342
Trades, Transport and Equipment Operators	756	769	808	825	820	835
Primary Industry	142	141	143	138	152	142
Processing, Manufacturing and Utilities	423	459	477	496	526	548
Total	**5,100**	**5,167**	**5,291**	**5,453**	**5,637**	**5,817**

Table 27 (continued)

(Thousands)

	2001	2002	2003	2004	2005	2006
Management	551	562	587	620	625	660
Business, Finance and Administrative	1,115	1,119	1,149	1,203	1,176	1,225
Natural and Applied Sciences	455	445	448	437	470	469
Health	291	321	332	345	346	356
Social Science, Education, Government Service and Religion	468	472	474	476	544	547
Art, Culture, Recreation and Sport	183	177	188	200	199	199
Sales and Service	1,359	1,393	1,457	1,435	1,448	1,479
Trades, Transport and Equipment Operators	850	867	890	899	910	912
Primary Industry	130	123	131	134	143	158
Processing, Manufacturing and Utilities	524	552	558	568	537	489
Total	**5,926**	**6,031**	**6,213**	**6,317**	**6,398**	**6,493**

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

Ontario, Distribution of Employment by Occupation, 1995–2006						Table 28
						(Per Cent)
	1995	1996	1997	1998	1999	2000
Management	10.7	10.4	10.3	10.1	9.7	9.7
Business, Finance and Administrative	19.2	19.0	18.4	18.5	18.3	18.1
Natural and Applied Sciences	6.0	5.7	6.2	6.5	7.1	7.3
Health	5.1	4.9	5.1	-4.8	4.8	4.8
Social Science, Education, Government Service and Religion	7.8	7.7	7.6	7.7	7.8	7.8
Art, Culture, Recreation and Sport	2.8	2.9	2.8	2.9	3.0	3.0
Sales and Service	22.6	22.9	22.7	22.7	22.7	23.1
Trades, Transport and Equipment Operators	14.8	14.9	15.3	15.1	14.5	14.4
Primary Industry	2.8	2.7	2.7	2.5	2.7	2.4
Processing, Manufacturing and Utilities	8.3	8.9	9.0	9.1	9.3	9.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 28 (continued)						(Per Cent)
	2001	2002	2003	2004	2005	2006
Management	9.3	9.3	9.4	9.8	9.8	10.2
Business, Finance and Administrative	18.8	18.6	18.5	19.0	18.4	18.9
Natural and Applied Sciences	7.7	7.4	7.2	6.9	7.3	7.2
Health	4.9	5.3	5.3	5.5	5.4	5.5
Social Science, Education, Government Service and Religion	7.9	7.8	7.6	7.5	8.5	8.4
Art, Culture, Recreation and Sport	3.1	2.9	3.0	3.2	3.1	3.1
Sales and Service	22.9	23.1	23.5	22.7	22.6	22.8
Trades, Transport and Equipment Operators	14.3	14.4	14.3	14.2	14.2	14.1
Primary Industry	2.2	2.0	2.1	2.1	2.2	2.4
Processing, Manufacturing and Utilities	8.8	9.1	9.0	9.0	8.4	7.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

Ontario, Employment by Industry, 1997–2006 — **Table 29**

(Thousands)

	1997	1998	1999	2000	2001
Goods Producing Industries	**1,404**	**1,457**	**1,533**	**1,576**	**1,575**
Primary Industries	141	143	152	133	119
Agriculture	100	105	114	98	84
Manufacturing	935	981	1,035	1,075	1,068
Construction	280	285	298	323	336
Utilities	48	48	49	46	51
Services Producing Industries	**3,887**	**3,996**	**4,103**	**4,241**	**4,352**
Trade	791	799	838	877	928
Transportation and Warehousing	249	261	259	273	275
Finance, Insurance, Real Estate and Leasing	371	370	378	379	389
Professional, Scientific and Technical Services	347	371	393	415	437
Business, Building and Other Support	195	208	222	242	241
Educational Services	342	345	363	367	358
Health Care and Social Assistance	496	518	515	541	559
Information, Culture and Recreation	248	244	258	282	303
Accommodation and Food Services	318	335	337	337	331
Public Administration	279	284	286	281	283
Other Services	252	263	254	248	248
Total Employment	**5,291**	**5,453**	**5,637**	**5,817**	**5,926**

Table 29 (continued): Ontario, Employment by Industry, 1997–2006

					(Thousands)
	2002	**2003**	**2004**	**2005**	**2006**
Goods Producing Industries	**1,603**	**1,630**	**1,639**	**1,637**	**1,601**
Primary Industries	112	113	113	128	139
Agriculture	77	82	79	93	100
Manufacturing	1,094	1,093	1,100	1,064	1,007
Construction	345	369	368	395	405
Utilities	53	55	58	50	49
Services Producing Industries	**4,428**	**4,584**	**4,678**	**4,761**	**4,892**
Trade	923	945	970	995	1,016
Transportation and Warehousing	279	290	295	289	296
Finance, Insurance, Real Estate and Leasing	393	415	436	452	477
Professional, Scientific and Technical Services	436	449	441	443	454
Business, Building and Other Support	247	264	278	283	296
Educational Services	369	376	390	428	445
Health Care and Social Assistance	582	612	635	626	638
Information, Culture and Recreation	298	289	303	301	320
Accommodation and Food Services	361	370	366	364	373
Public Administration	293	310	312	322	315
Other Services	247	264	254	257	264
Total Employment	**6,031**	**6,213**	**6,317**	**6,398**	**6,493**

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

Ontario, Growth in Employment by Industry, 1997–2006 **Table 30**

	1997	1998	1999	2000	2001
					(Per Cent Change)
Goods Producing Industries	**2.6**	**3.8**	**5.2**	**2.8**	**(0.1)**
Primary Industries	(5.9)	1.6	5.9	(12.5)	(10.0)
Agriculture	(3.0)	5.0	8.1	(13.6)	(14.7)
Manufacturing	3.1	4.8	5.6	3.8	(0.6)
Construction	7.4	1.9	4.3	8.4	4.2
Utilities	(5.0)	0.2	1.9	(5.7)	11.0
Services Producing Industries	**2.3**	**2.8**	**2.7**	**3.4**	**2.6**
Trade	2.1	1.1	4.8	4.7	5.9
Transportation and Warehousing	1.6	4.8	(0.5)	5.2	0.7
Finance, Insurance, Real Estate and Leasing	0.7	(0.2)	2.2	0.2	2.6
Professional, Scientific and Technical Services	11.1	6.7	5.9	5.6	5.5
Business, Building and Other Support	9.0	6.7	7.1	8.8	(0.4)
Educational Services	0.4	0.8	5.2	1.0	(2.4)
Health Care and Social Assistance	(1.4)	4.5	(0.7)	5.1	3.4
Information, Culture and Recreation	5.6	(1.8)	5.9	9.2	7.3
Accommodation and Food Services	2.3	5.1	0.7	0.1	(1.9)
Public Administration	(3.2)	1.6	0.9	(1.8)	0.9
Other Services	3.3	4.6	(3.3)	(2.4)	(0.3)
Total Employment	**2.4**	**3.1**	**3.4**	**3.2**	**1.9**

Table 30 (continued): Ontario, Growth in Employment by Industry, 1997–2006

					(Per Cent Change)
	2002	**2003**	**2004**	**2005**	**2006**
Goods Producing Industries	**1.8**	**1.7**	**0.6**	**(0.1)**	**(2.2)**
Primary Industries	(6.4)	1.0	0.2	13.2	8.8
Agriculture	(8.4)	6.3	(3.2)	18.0	7.8
Manufacturing	2.5	(0.1)	0.6	(3.3)	(5.3)
Construction	2.4	7.1	(0.4)	7.4	2.6
Utilities	3.1	3.0	7.2	(14.6)	(1.8)
Services Producing Industries	**1.8**	**3.5**	**2.1**	**1.8**	**2.8**
Trade	(0.6)	2.4	2.6	2.6	2.1
Transportation and Warehousing	1.4	4.1	1.5	(1.8)	2.3
Finance, Insurance, Real Estate and Leasing	1.1	5.6	5.0	3.8	5.5
Professional, Scientific and Technical Services	(0.2)	2.8	(1.6)	0.5	2.3
Business, Building and Other Support	2.5	7.0	5.0	1.8	4.7
Educational Services	3.2	1.8	3.7	9.8	3.8
Health Care and Social Assistance	4.0	5.1	3.8	(1.4)	1.9
Information, Culture and Recreation	(1.5)	(3.0)	4.7	(0.8)	6.3
Accommodation and Food Services	9.2	2.4	(1.1)	(0.4)	2.4
Public Administration	3.5	5.6	0.9	3.3	(2.5)
Other Services	(0.3)	7.1	(4.1)	1.3	2.8
Total Employment	**1.8**	**3.0**	**1.7**	**1.3**	**1.5**

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

Ontario, Employment Level by Economic Regions, 1996–2006 — Table 31

(Thousands)

	1996	1997	1998	1999	2000	2001
Ontario	5,167	5,291	5,453	5,637	5,817	5,926
Region:*						
East	**675**	**686**	**723**	**749**	**758**	**784**
Ottawa (510)	506	513	539	552	572	593
Kingston-Pembroke (515)	169	173	184	197	186	192
Greater Toronto Area (530)[1]	**2,237**	**2,336**	**2,407**	**2,481**	**2,581**	**2,665**
Central	**1,202**	**1,222**	**1,267**	**1,311**	**1,358**	**1,363**
Muskoka-Kawarthas (520)	146	147	148	156	159	152
Kitchener-Waterloo-Barrie (540)	475	493	512	541	550	559
Hamilton-Niagara Peninsula (550)	580	582	607	614	649	651
Southwest	**697**	**702**	**711**	**741**	**760**	**755**
London (560)	278	282	285	298	307	305
Windsor-Sarnia (570)	278	276	284	293	302	302
Stratford-Bruce Peninsula (580)	141	144	142	149	152	148
North	**356**	**345**	**345**	**356**	**360**	**359**
Northeast (590)	246	240	241	246	249	251
Northwest (595)	110	105	104	110	111	107

Table 31 (continued) (Thousands)

	2002	2003	2004	2005	2006
Ontario	6,031	6,213	6,317	6,398	6,493
Region:*					
East	**793**	**816**	**818**	**830**	**844**
Ottawa (510)	595	617	614	624	642
Kingston-Pembroke (515)	199	199	204	205	202
Greater Toronto Area (530)[1]	**2,721**	**2,799**	**2,854**	**2,912**	**2,947**
Central	**1,387**	**1,451**	**1,476**	**1,494**	**1,529**
Muskoka-Kawarthas (520)	155	175	180	170	181
Kitchener-Waterloo-Barrie (540)	579	597	611	637	655
Hamilton-Niagara Peninsula (550)	653	680	686	687	693
Southwest	**765**	**775**	**801**	**797**	**812**
London (560)	307	317	330	328	331
Windsor-Sarnia (570)	306	307	307	315	324
Stratford-Bruce Peninsula (580)	151	150	164	155	157
North	**365**	**371**	**367**	**364**	**360**
Northeast (590)	251	254	255	256	256
Northwest (595)	113	117	112	108	105

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

[1] Economic Region 530 closely matches the GTA, the main exception being that it excludes the city of Burlington.

Note: All figures are average annual employment levels.

Source: Statistics Canada

Ontario, Employment Level by Industry for Economic Regions, 2006

Table 32

(Thousands)

	All Industries	Agriculture	Resources[1]	Manufacturing
Ontario	6,493	100	39	1,007
Region:				
East	**844**	**14**	**2**	**83**
Ottawa (510)	642	8	–	56
Kingston-Pembroke (515)	202	6	–	27
Greater Toronto Area (530)	**2,947**	**8**	**5**	**448**
Central	**1,529**	**36**	**5**	**275**
Muskoka-Kawarthas (520)	181	5	2	24
Kitchener-Waterloo-Barrie (540)	655	11	2	137
Hamilton-Niagara Peninsula (550)	693	20	2	114
Southwest	**812**	**38**	**4**	**166**
London (560)	331	13	–	62
Windsor-Sarnia (570)	324	9	–	76
Stratford-Bruce Peninsula (580)	157	16	3	28
North	**360**	**5**	**23**	**35**
Northeast (590)	256	4	18	24
Northwest (595)	105	–	5	11

Table 32 (continued)

(Thousands)

	Construction	Distributive[2]	Finance, Prof. & Mgmt.[3]	Info., Culture & Recreation[4]
Ontario	405	590	1,226	320
Region:				
East	**44**	**57**	**148**	**42**
Ottawa (510)	32	39	121	35
Kingston-Pembroke (515)	11	17	27	7
Greater Toronto Area (530)	**176**	**296**	**697**	**169**
Central	**114**	**137**	**232**	**67**
Muskoka-Kawarthas (520)	16	15	23	9
Kitchener-Waterloo-Barrie (540)	49	57	101	27
Hamilton-Niagara Peninsula (550)	49	65	108	31
Southwest	**48**	**68**	**109**	**29**
London (560)	18	27	52	13
Windsor-Sarnia (570)	18	25	40	12
Stratford-Bruce Peninsula (580)	12	16	16	4
North	**23**	**32**	**41**	**12**
Northeast (590)	18	22	29	9
Northwest (595)	5	10	12	3

Table 32 (continued)			(Thousands)
	Retail Trade	Personal Services[5]	Education
Ontario	**771**	**637**	**444**
Region:			
East	**97**	**91**	**62**
Ottawa (510)	72	67	42
Kingston-Pembroke (515)	24	24	19
Greater Toronto Area (530)	**348**	**269**	**191**
Central	**183**	**160**	**107**
Muskoka-Kawarthas (520)	23	22	15
Kitchener-Waterloo-Barrie (540)	76	68	43
Hamilton-Niagara Peninsula (550)	84	69	50
Southwest	**97**	**81**	**54**
London (560)	37	32	27
Windsor-Sarnia (570)	39	36	20
Stratford-Bruce Peninsula (580)	21	13	7
North	**47**	**36**	**30**
Northeast (590)	33	25	20
Northwest (595)	14	11	9

Table 32 (continued)		(Thousands)
	Health & Soc. Assistance	Public Administration
Ontario	**638**	**314**
Region:		
East	**92**	**113**
Ottawa (510)	65	102
Kingston-Pembroke (515)	27	11
Greater Toronto Area (530)	**246**	**95**
Central	**154**	**60**
Muskoka-Kawarthas (520)	20	8
Kitchener-Waterloo-Barrie (540)	61	24
Hamilton-Niagara Peninsula (550)	73	28
Southwest	**97**	**21**
London (560)	41	9
Windsor-Sarnia (570)	39	8
Stratford-Bruce Peninsula (580)	17	4
North	**50**	**26**
Northeast (590)	35	19
Northwest (595)	15	7

All figures are average annual employment levels.
Sub-regional figures may not add up to regional totals due to rounding.
Employment numbers under 1,500 are suppressed because they are statistically unreliable.
See standard deviation and GTA note for Table 31.
Industrial groupings based on North American Industry Classification System (NAICS).

1 Includes Forestry, Fishing, Mining, Oil and Gas.
2 Includes Transportation and Warehousing, Utilities and Wholesale Trade.
3 Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.
4 Includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.
5 Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Source: Statistics Canada.

Ontario Economic Regions[1]	Table 33
East	
Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division
Central	
Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The counties of Brant, Haldimand and Norfolk, the Niagara Regional Municipality, the Hamilton Division and the city of Burlington in the Halton Regional Municipality
Greater Toronto Area[2]	
Toronto (530)	Toronto Division, the regional municipalities of Durham, York, Peel and Halton (excluding the city of Burlington)
Southwest	
London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey
North	
Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

1 As defined by Statistics Canada, Standard Geographical Classification SGC 2001.
2 Economic Region 530 closely matches the GTA, the main exception being that it excludes the city of Burlington.

ANNEX VII: HOW TO PARTICIPATE IN THE 2008 PRE-BUDGET CONSULTATIONS

HOW TO PARTICIPATE IN THE 2008 PRE-BUDGET CONSULTATIONS

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister is interested in hearing Ontarians' views on what more the government can do to ensure a productive economy and better services for people.

Information on which communities and locations the Minister plans to visit will be posted at www.fin.gov.on.ca in December 2007. Individuals who wish to attend one of these consultations can call toll-free 1-800-263-7965 or 1-800-263-7776 TTY.

The information below describes how to participate in the 2008 pre-budget consultations.

SUBMISSIONS

Visit the Ministry of Finance website at www.fin.gov.on.ca to submit your ideas for the 2008 Budget. Click on the "Tell Us What You Think" item in the Hot Topics menu and complete the form provided.

Submissions may also be e-mailed to submissions@ontario.ca, sent by fax to 416-325-0969 or mailed to: The Honourable Dwight Duncan, Minister of Finance, c/o Budget Secretariat, Frost Building North, 3rd Floor, 95 Grosvenor Street, Toronto, ON M7A 1Z1.

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